

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name Lake County		County Lake	
Fiscal Year End December 31, 2006		Opinion Date June 20, 2007		Date Audit Report Submitted to State June 29, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

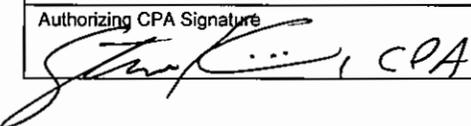
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

SM **2** **0** **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) Single Audit	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA		License Number 1101022020

Lake County, Michigan
FINANCIAL STATEMENTS
December 31, 2006

Lake County, Michigan

December 31, 2006

BOARD OF COMMISSIONERS

James Clark	Chairperson
Lee Schwartz	Vice Chairperson
Ken Wenzel	Vice Chairperson Pro Tem
James Woods	Commissioner
John Fant	Commissioner
Phillip Maiville	Commissioner
Howard Lodholtz	Commissioner
Mary Lemm	Commissioner
Robert Myers	Commissioner

Lake County, Michigan

TABLE OF CONTENTS

December 31, 2006

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-ix
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9-10
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	11-12
Statement of Cash Flows - Proprietary Funds	13-14
Statement of Net Assets - Fiduciary Funds	15
Combining Statement of Net Assets - Component Unit Funds	16
Statement of Activities - Component Unit Funds	17
Notes to Financial Statements	18-41
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule - Revenues and Other Financing Sources	42-43
Budgetary Comparison Schedule - Expenditures and Other Financing Uses By Activity	44-45
SHERIFF ROAD PATROL FUND	
Budgetary Comparison Schedule	46
JAIL TRV FUND	
Budgetary Comparison Schedule	47
REVENUE SHARING FUND	
Budgetary Comparison Schedule	48
AMBULANCE FUND	
Budgetary Comparison Schedule	49
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	50-57

Lake County, Michigan

TABLE OF CONTENTS - CONTINUED

December 31, 2006

	<u>Page</u>
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	58-65
Combining Statement of Net Assets - Nonmajor Enterprise Funds	66
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Enterprise Funds	67
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	68
Combining Statement of Net Assets - Internal Service Funds	69
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	70
Combining Statement of Cash Flows - Internal Service Funds	71
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	72
COMPONENT UNIT FUNDS	
DRAINAGE DISTRICTS	
Combining Balance Sheet	73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	74
COUNCIL ON AGING	
Balance Sheet	75
Statement of Revenues, Expenditures, and Changes in Fund Balance	76
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	77-80

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Lake County
Baldwin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lake County Road Commission. The Lake County Road Commission represents 90% and 93%, respectively of the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the audits of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2007 on our consideration of Lake County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 20, 2007

Management's Discussion and Analysis

As management of the *County of Lake*, we offer this narrative overview and analysis of the financial activities of the County, including limited information pertaining to the separately audited Road Commission for the year ended December 31, 2006. For more detailed information, the Road Commission's separately issued financial statements may be obtained from their administrative office.

Financial Highlights

- The assets of the County primary government exceeded its liabilities at the close of the fiscal year by \$12,078,219 (*net assets*). Of this amount, \$6,027,736 (*unrestricted net assets*) may be used to meet the government's ongoing obligations.
- The primary government's total net assets reflected a net increase of \$1,414,385, or 13.3 percent.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$4,730,630, a net increase of \$1,145,407 or 31.9 percent over the prior year. Of this total, 89.5 percent or \$4,236,399 is *available for spending* at the government's discretion (*unreserved and undesignated fund balance*).
- At the end of the fiscal year, unreserved and undesignated fund balance for the General Fund was \$655,904, an amount equal to 14.5 percent of total General Fund expenditures (including operating transfers).
- The primary government's total net bonded debt increased by \$369,961.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets indicate whether the financial position of the County is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Lake County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, health and welfare, community and economic development, recreation and cultural functions. The business-type activities primarily represent the administration of the delinquent property tax system.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also three legally separate entities: the Lake County Road Commission, the County Drainage Districts, and the Council on Aging. Financial information for the *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 33 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Sheriff Road Patrol, Jail TRV, Revenue Sharing Reserve, and Ambulance Funds each of which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its General and Special Revenue Funds. A budgetary comparison schedule has been provided herein to demonstrate compliance with the County General Fund and all major Special Revenue Funds budgets.

Proprietary funds. The County maintains two types of proprietary funds. *Enterprise funds* report the same functions as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for the Delinquent Tax Revolving Funds and the Treasurer's Unrestricted Fund which are considered to be major funds. Data from the other nonmajor enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

The County maintains *internal service funds* to account for and allocate costs internally among the County's various functions. The County uses two (2) internal service funds to account for the following functions: County supplies and employee benefits. Because these services predominantly benefit governmental functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *other supplementary information*, including combining statements of the nonmajor governmental funds and internal service funds information.

Government-wide Financial Analysis

Statement of Net Assets

Lake County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 7,210,114	\$ 7,070,473	\$ 4,917,791	\$ 4,659,710	\$ 12,127,905	\$ 11,730,183
Capital assets	13,986,885	13,584,240	-	-	13,986,885	13,584,240
Total assets	21,196,999	20,654,713	4,917,791	4,659,710	26,114,790	25,314,423
Liabilities						
Current	2,685,304	3,679,506	63,880	44,310	2,749,184	3,723,816
Noncurrent	11,287,387	10,926,773	-	-	11,287,387	10,926,773
Total liabilities	13,972,691	14,606,279	63,880	44,310	14,036,571	14,650,589
Net Assets						
Invested in capital assets - net of related debt	2,542,584	2,509,900	-	-	2,542,584	2,509,900
Restricted	3,507,899	2,782,672	-	-	3,507,899	2,782,672
Unrestricted	1,173,825	755,862	4,853,911	4,615,400	6,027,736	5,371,262
Total net assets	\$ 7,224,308	\$ 6,048,434	\$ 4,853,911	\$ 4,615,400	\$ 12,078,219	\$ 10,663,834

The County's net assets include \$2,542,584 in capital assets comprised of land, buildings, vehicles and equipment less any outstanding related debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Certain other limitations on the use of net assets apply due primarily to legal restrictions. These restricted net assets total \$3,507,899. The remaining balance of unrestricted net assets (\$6,027,736 or 50.0 percent) may be used to meet the government's ongoing obligations.

Statement of Activities

Lake County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenue:						
Charges for services	\$ 1,361,546	\$ 1,252,053	\$ 675,101	\$ 618,139	\$ 2,036,647	\$ 1,870,192
Operating grants and contributions	3,971,276	4,026,309	-	-	3,971,276	4,026,309
Capital grants and contributions	21,058	-	-	-	21,058	-0-
General revenues:						
Property taxes	5,499,365	5,117,186	-	-	5,499,365	5,117,186
Investment earnings	201,396	16,503	161,645	62,864	363,041	79,367
Miscellaneous	23,817	95,308	-	-	23,817	95,308
Transfers	391,470	571,917	(391,470)	(571,917)	-0-	-0-
Total revenues	11,469,928	11,079,276	445,276	109,086	11,915,204	11,188,362
Expenses						
General government	2,970,619	2,811,142	-	-	2,970,619	2,811,142
Public safety	5,591,696	5,262,182	-	-	5,591,696	5,262,182
Health and welfare	1,191,411	1,426,061	-	-	1,191,411	1,426,061
Recreation and culture	400	400	-	-	400	400
Comm. and Econ. Development	5,394	4,768	-	-	5,394	4,768
Other	37,003	47,260	-	-	37,003	47,260
Interest on long-term debt	497,531	404,264	-	-	497,531	404,264
Delinquent tax collection and other	-	-	206,765	117,323	206,765	117,323
Business-type activities	-	-	-	-	-	-
Total expenses	10,294,054	9,956,077	206,765	117,323	10,500,819	10,073,400
Change in net assets	1,175,874	1,123,199	238,511	(8,237)	1,414,385	1,114,962
Net assets, beginning of year	6,048,434	4,926,366	4,615,400	4,623,637	10,663,834	9,550,003
Prior period adjustment	-	(1,131)	-	-	-0-	(1,131)
Net assets, end of year	\$ 7,224,308	\$ 6,048,434	\$ 4,853,911	\$ 4,615,400	\$ 12,078,219	\$ 10,663,834

Governmental Activities

The preceding table shows that the net assets of governmental activities increased by approximately \$1.2 million or 19.4 percent during 2006 as compared to approximately \$1.1 million in the prior year.

Business-type Activities

Net assets of the County's business-type activities increased \$238,511. Net assets of the Treasurer's Unrestricted Fund and other nonmajor funds increased \$110,269 and the Delinquent Tax Fund increased \$128,242.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. In particular, *unreserved fund balance* serves as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$4,730,630, an increase of \$1,145,407. Approximately 89.5 percent of this total amount (\$4,236,399) constitutes *unreserved/undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is either *reserved* to indicate that it is not available for new spending (\$493,294), or is *designated* to support other projects (\$937).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the total fund balance was \$656,841, while the unreserved/undesignated fund balance of the General Fund was \$655,904, an amount equal to 14.5 percent of total General Fund expenditures. This portion of General Fund unreserved/undesignated fund balance is consistent with standards issued by the Governmental Finance Officers Association.

The fund balance of the County's General Fund increased by \$239,434 during the current fiscal year. Actual General Fund revenues were greater than the amount budgeted by \$143,977. This greater than budget amount, coupled with total expenditures being under budget by \$153,654 added \$297,631 more to fund balance at year-end than originally budgeted. These budget variances were mainly a result of the accounting for the speeding up of tax revenues in the Revenue Sharing Reserve Fund instead of the General Fund, greater interest revenue in 2006, and a reduction of actual expenditures.

The Sheriff Road Patrol Fund has a total fund balance of \$423,056, which increased by \$123,299 over the prior year. The increase was caused by a \$60,314 increase in revenue over the final amended budget and a \$62,985 savings in current expenditures over appropriations.

The Jail TRV Fund has a fund deficit of \$164,495, which was reduced by \$225,910 from the prior year deficit position. This decrease is mainly due to a \$237,184 increase in revenue over budgeted amounts and overages in costs to handle additional services provided.

The Revenue Sharing Reserve has a total fund balance of \$1,927,304. As indicated above this recently established fund, authorized by shifting forward the collection date for the County portion of the property tax levy from December to July, is intended to provide a reserve from which the County may draw amounts to replace revenues previously received from the now suspended State Revenue Sharing program. The current fund balance represents the final year of tax deposits to this fund. The balance in this fund is projected to be exhausted in year 2009 or 2010 at which time the County is to revert to an alternate State sponsored revenue source.

The Ambulance Fund has a total fund balance of \$565,105, which increased by \$2,031 over the prior year.

General Fund Budgetary Highlights

Lake County's budget is a dynamic document. Although adopted in December (prior to the start of the year), the budget is frequently amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$4,756,410, \$143,977 above the final amended budget. Actual revenues varied from the final amended budget. There were some variations in several individual line items but the largest three (3) to account for most of the difference was approximately \$301,000 more in tax revenues were received than budgeted due in part to higher taxable values and the tax revenues shift, approximately by \$179,000 more in interest revenue than budgeted due to better interest rates in 2006, and the Treasurer's Unrestricted Fund transfer of \$437,000 was not done as budgeted in 2006.

The original General Fund expenditure budget of \$4,586,874 was revised to \$4,670,630 for an increase of \$83,756 or 1.8 percent. A majority of the amendments were simply inflationary modifications in various activities to better align the budgetary figures once up-to-date data became available.

Actual County expenditures for 2006 were \$153,654 under budget. General fund actual expenditures came in at \$4,516,976 and the final amended budget was \$4,670,630, which was a 3.3% difference mainly due to good control by the County to assure budgetary expenditures were controlled in 2006.

Capital Asset and Debt Administration

Capital assets. As of December 31, 2006, the County's investment in capital assets, net of accumulated depreciation, for its governmental activities amounted to \$13,986,885. (These capital assets do not include those of the separately audited Road Commission component unit). This investment in capital assets includes land, construction in process, buildings and improvements, vehicles, machinery and equipment. The net increase in the County's investment in capital assets for the primary government in the current fiscal year amounted to \$914,085, less a net increase of \$511,440 in accumulated depreciation, for a net increase of \$402,645 or 3.0 percent.

County of Lake's Capital Assets (net of depreciation)

	<u>Primary Government</u>
Land and land improvements	\$ 3,364,271
Construction in process	1,705,188
Buildings and improvements	8,721,499
Furniture and equipment	18,008
Vehicles	<u>177,919</u>
Total	<u>\$13,986,885</u>

Long-term debt. At the end of the current year, the County Primary Government had total debt outstanding of \$11,619,083. (This amount does not include the debt of the separately audited Road Commission component unit). All of the bonds are backed by the County's full faith and credit.

County of Lake's Bonded Indebtedness

	<u>Primary Government</u>
General obligation bonds	\$11,444,301
Accrued sick and vacation	<u>174,782</u>
	<u>\$11,619,083</u>

New debt for the 2005 USDA Building Authority Bonds was issued during the current year totaling \$726,016 and \$356,055 in principal payments were made on the other bonded debt of the County during the year. There is significantly more information related to debt detailed in Note G. The County's outstanding general obligation debt is well under the current debt limitation of \$44,197,243 (10 percent of taxable valuation).

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's budget for the 2007 year:

- The uncertainty over the State's economy will likely result in additional decreases in state funding.
- Healthcare costs will continue to escalate at a rate higher than inflation and require continued cost containment measures.
- The loss of State Share revenues
- Anticipated increase in revenues in the TRV Project fund
- Various predetermined labor union issues
- Anticipated new telecommunications funding options for 911 Central Dispatch

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Lake County
800 Tenth Street, Suite 200
Baldwin, Michigan 49304

BASIC FINANCIAL STATEMENTS

Lake County, Michigan

STATEMENT OF NET ASSETS

December 31, 2006

	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,169,477	\$ 3,062,809	\$ 5,232,286	\$ 1,025,388
Investments	516,777	806,615	1,323,392	-
Receivables				
Current taxes	2,983,589	-	2,983,589	274,536
Delinquent taxes	-	943,264	943,264	-
Accounts	37,369	24,000	61,369	464,030
Other	-	-	-0-	24,406
Inventories	9,831	-	9,831	291,668
Internal balances	341,470	(341,470)	-0-	-
Due from other governmental units				
Federal/State	1,030,642	-	1,030,642	15,265
Local	120,959	64,055	185,014	-
Total current assets	7,210,114	4,559,273	11,769,387	2,095,293
Noncurrent assets				
Investments	-	358,518	358,518	-
Capital assets not being depreciated	5,029,988	-	5,029,988	100,437
Capital assets, net of accumulated depreciation	8,956,897	-	8,956,897	2,847,204
Total noncurrent assets	13,986,885	358,518	14,345,403	2,947,641
TOTAL ASSETS	21,196,999	4,917,791	26,114,790	5,042,934
LIABILITIES				
Current liabilities				
Accounts payable	195,460	9,068	204,528	61,752
Accrued liabilities	248,918	3,492	252,410	19,177
Accrued interest payable	35,587	-	35,587	-
Due to other governmental units				
Federal/State	118,001	51,320	169,321	-
Current portion of compensated absences	43,696	-	43,696	14,165
Current portion of long-term debt	288,000	-	288,000	36,350
Deferred revenue	1,755,642	-	1,755,642	289,801
Total current liabilities	2,685,304	63,880	2,749,184	421,245
Noncurrent liabilities				
Compensated absences	131,086	-	131,086	127,487
Noncurrent portion of long-term debt	11,156,301	-	11,156,301	-
Total noncurrent liabilities	11,287,387	-0-	11,287,387	127,487
TOTAL LIABILITIES	13,972,691	63,880	14,036,571	548,732
NET ASSETS				
Invested in capital assets, net of related debt	2,542,584	-	2,542,584	2,911,291
Restricted for:				
Public safety	790,070	-	790,070	-
Other purposes	2,717,829	-	2,717,829	1,582,911
Unrestricted	1,173,825	4,853,911	6,027,736	-
TOTAL NET ASSETS	\$ 7,224,308	\$ 4,853,911	\$12,078,219	\$ 4,494,202

See accompanying notes to financial statements.

Lake County, Michigan

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities								
General government	\$ 2,970,619	\$ 256,838	\$ 1,037,017	\$ -	\$ (1,676,764)	\$ -	\$ (1,676,764)	\$ -
Public safety	5,591,696	828,596	2,645,637	21,058	(2,096,405)	-	(2,096,405)	-
Health and welfare	1,191,411	276,112	288,622	-	(626,677)	-	(626,677)	-
Recreation and cultural	400	-	-	-	(400)	-	(400)	-
Community and economic development	5,394	-	-	-	(5,394)	-	(5,394)	-
Other	37,003	-	-	-	(37,003)	-	(37,003)	-
Interest on long-term debt	497,531	-	-	-	(497,531)	-	(497,531)	-
Total governmental activities	10,294,054	1,361,546	3,971,276	\$ 21,058	(4,940,174)	-0-	(4,940,174)	-0-
Business-type activities:								
Treasurer's Unrestricted	115,955	152,021	-	-	-	36,066	36,066	-
Delinquents tax revolving	10	373,670	-	-	-	373,660	373,660	-
Other	90,800	149,410	-	-	-	58,610	58,610	-
Total business-type activities	206,765	675,101	-0-	-0-	-0-	468,336	468,336	-0-
Total primary government	<u>\$ 10,500,819</u>	<u>\$ 2,036,647</u>	<u>\$ 3,971,276</u>	<u>\$ 21,058</u>	(4,940,174)	468,336	(4,471,838)	-0-
Component units:								
Road Commission	3,776,485	394,064	2,820,342	259,509	-	-	-0-	(302,570)
Council on Aging	218,510	-	-	-	-	-	-0-	(218,510)
Drainage Districts	247	-	-	-	-	-	-0-	(247)
Total component units	<u>\$ 3,995,242</u>	<u>\$ 394,064</u>	<u>\$ 2,820,342</u>	<u>\$ 259,509</u>	-0-	-0-	-0-	(521,327)
General revenues:								
Property taxes					5,499,365	-	5,499,365	272,904
Investment earnings					201,396	161,645	363,041	54,501
Miscellaneous					23,817	-	23,817	10,255
Transfers					391,470	(391,470)	-0-	-
Total general revenues and transfers					6,116,048	(229,825)	5,886,223	337,660
Change in net assets					1,175,874	238,511	1,414,385	(183,667)
Net assets, beginning of the year					6,048,434	4,615,400	10,663,834	4,677,869
Net assets, end of the year					<u>\$ 7,224,308</u>	<u>\$ 4,853,911</u>	<u>\$ 12,078,219</u>	<u>\$ 4,494,202</u>

See accompanying notes to financial statements.

Lake County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2006

	General	Sheriff Road Patrol	Jail TRV
ASSETS			
Cash and cash equivalents	\$ 984,390	\$ 516,337	\$ (823,643)
Investments	-	-	-
Receivables			
Taxes			
Current	505,988	1,137,129	-
Accounts	-	-	-
Due from other funds	361,438	2,635	-
Due from other governmental units			
Federal/State	15,424	-	772,800
Local	109,087	-	-
	<u>\$ 1,976,327</u>	<u>\$ 1,656,101</u>	<u>\$ (50,843)</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 58,840	\$ 8,177	\$ 69,293
Accrued liabilities	148,975	24,515	44,359
Due to other funds	1,111,671	-	-
Due to other governmental units			
Federal/State	-	-	-
Deferred revenue	-	1,200,353	-
	<u>1,319,486</u>	<u>1,233,045</u>	<u>113,652</u>
TOTAL LIABILITIES			
FUND BALANCES (DEFICITS):			
Reserved for Debt service	-	-	-
Unreserved			
Designated for:			
Other purposes	937	-	-
Undesignated, reported in:			
General Fund	655,904	-	-
Special revenue funds	-	423,056	(164,495)
Capital projects fund	-	-	-
	<u>656,841</u>	<u>423,056</u>	<u>(164,495)</u>
TOTAL FUND BALANCES (DEFICITS)			
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)			
	<u>\$ 1,976,327</u>	<u>\$ 1,656,101</u>	<u>\$ (50,843)</u>

See accompanying notes to financial statements.

<u>Revenue Sharing Reserve</u>	<u>Ambulance</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 596,171	\$ 744,896	\$ 2,018,151
-	-	516,777	516,777
818,609	521,863	-	2,983,589
-	-	37,369	37,369
1,108,695	-	16,000	1,488,768
-	-	242,418	1,030,642
-	-	11,872	120,959
<u>\$ 1,927,304</u>	<u>\$ 1,118,034</u>	<u>\$ 1,569,332</u>	<u>\$ 8,196,255</u>
\$ -	\$ 2,055	\$ 57,066	\$ 195,431
-	-	31,069	248,918
-	-	35,962	1,147,633
-	-	118,001	118,001
-	550,874	4,415	1,755,642
-0-	552,929	246,513	3,465,625
-	-	493,294	493,294
-	-	-	937
-	-	-	655,904
1,927,304	565,105	179,458	2,930,428
-	-	650,067	650,067
<u>1,927,304</u>	<u>565,105</u>	<u>1,322,819</u>	<u>4,730,630</u>
<u>\$ 1,927,304</u>	<u>\$ 1,118,034</u>	<u>\$ 1,569,332</u>	<u>\$ 8,196,255</u>

Lake County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2006

Total fund balance - governmental funds **\$ 4,730,630**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 15,813,645	
Accumulated depreciation is	<u>(1,826,760)</u>	
Capital assets, net		13,986,885

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets

Net assets of governmental activities accounted for in Internal Service Funds		161,463
--	--	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct County obligations	\$ 11,444,301	
Accrued interest payable	35,587	
Compensated absences	<u>174,782</u>	
		<u>(11,654,670)</u>

Net assets of governmental activities **\$ 7,224,308**

See accompanying notes to financial statements.

Lake County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2006

	General	Sheriff Road Patrol	Jail TRV
REVENUES			
Taxes	\$ 3,025,555	\$ 1,134,407	\$ -
Licenses and permits	10,353	-	-
Intergovernmental			
Federal/State	519,804	-	2,430,151
Charges for services	650,183	-	-
Fines and forfeits	9,400	-	-
Interest and rents	182,762	-	-
Other	152,108	27,590	55,878
	<u>4,550,165</u>	<u>1,161,997</u>	<u>2,486,029</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
General government	2,560,753	-	-
Public safety	1,315,209	903,245	1,954,022
Community and economic development	3,360	-	-
Health and welfare	232,647	-	-
Other	37,003	-	-
Capital outlay	31,435	70,336	27,216
Debt service	-	-	285,829
	<u>4,180,407</u>	<u>973,581</u>	<u>2,267,067</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES			
	369,758	188,416	218,962
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	206,245	-	6,948
Transfers out	(336,569)	(65,117)	-
	<u>(130,324)</u>	<u>(65,117)</u>	<u>6,948</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES			
	239,434	123,299	225,910
Fund balances (deficits), beginning of year	417,407	299,757	(390,405)
Fund balances (deficits), end of year	<u>\$ 656,841</u>	<u>\$ 423,056</u>	<u>\$ (164,495)</u>

See accompanying notes to financial statements.

<u>Revenue Sharing Reserve</u>	<u>Ambulance</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 818,608	\$ 520,795	\$ -	\$ 5,499,365
-	-	-	10,353
-	-	553,091	3,503,046
-	-	678,719	1,328,902
-	-	-	9,400
-	937	272,109	455,808
-	-	36,008	271,584
<u>818,608</u>	<u>521,732</u>	<u>1,539,927</u>	<u>11,078,458</u>
-	-	337,976	2,898,729
-	-	1,056,098	5,228,574
-	-	-	3,360
-	297,423	609,552	1,139,622
-	-	-	37,003
-	-	725,022	854,009
-	-	603,411	889,240
<u>-0-</u>	<u>297,423</u>	<u>3,332,059</u>	<u>11,050,537</u>
818,608	224,309	(1,792,132)	27,921
-	-	726,016	726,016
-	-	1,256,680	1,469,873
<u>(203,984)</u>	<u>(222,278)</u>	<u>(250,455)</u>	<u>(1,078,403)</u>
<u>(203,984)</u>	<u>(222,278)</u>	<u>1,732,241</u>	<u>1,117,486</u>
614,624	2,031	(59,891)	1,145,407
<u>1,312,680</u>	<u>563,074</u>	<u>1,382,710</u>	<u>3,585,223</u>
<u>\$ 1,927,304</u>	<u>\$ 565,105</u>	<u>\$ 1,322,819</u>	<u>\$ 4,730,630</u>

Lake County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Net change in fund balances - total governmental funds **\$ 1,145,407**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 914,085	
Depreciation expense	<u>(511,440)</u>	
Excess of depreciation expense over capital outlay		402,645

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds		(27,667)
--	--	----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Loan principal retirement	\$ 356,055	
Bond proceeds	(726,016)	
Decrease in accrued interest payable	35,654	
(Increase) in accrued compensated absences	<u>(10,204)</u>	
		<u>(344,511)</u>

Change in net assets of governmental activities **\$ 1,175,874**

See accompanying notes to financial statements.

Lake County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2006

	Business-type Activities			Total
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,011,343	\$ 2,016,588	\$ 34,878	\$ 3,062,809
Investments	388,024	418,591	-	806,615
Accounts receivable	-	-	24,000	24,000
Delinquent taxes receivable	19,324	923,940	-	943,264
Inventories	-	-	-	-0-
Due from other funds	35,962	100	-	36,062
Due from other governmental units				
Local	10,149	53,906	-	64,055
Total current assets	1,464,802	3,413,125	58,878	4,936,805
Noncurrent assets				
Investments	358,518	-	-	358,518
TOTAL ASSETS	1,823,320	3,413,125	58,878	5,295,323
LIABILITIES				
Current liabilities				
Accounts payable	1,390	1,731	5,947	9,068
Accrued liabilities	-	3,492	-	3,492
Due to other funds	377,532	-	-	377,532
Due to other governmental units	33,674	17,646	-	51,320
TOTAL LIABILITIES	412,596	22,869	5,947	441,412
NET ASSETS				
Restricted for employee benefits	-	-	-	-0-
Unrestricted	1,410,724	3,390,256	52,931	4,853,911
TOTAL NET ASSETS	\$ 1,410,724	\$ 3,390,256	\$ 52,931	\$ 4,853,911

See accompanying notes to financial statements.

Governmental
Activities

Internal
Service
Funds

\$ 151,326

-

-

-

9,831

341

-

161,498

-

161,498

29

-

6

-

35

152,620

8,843

\$ 161,463

Lake County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2006

	Business-type Activities			Total
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	
OPERATING REVENUES				
Charges for services	\$ 149,837	\$ 80,896	\$ 121,981	\$ 352,714
Interest and penalties on taxes	2,184	292,774	-	294,958
Other	-	-	27,429	27,429
TOTAL OPERATING REVENUES	152,021	373,670	149,410	675,101
OPERATING EXPENSES				
Other	115,955	10	90,800	206,765
OPERATING INCOME (LOSS)	36,066	373,660	58,610	468,336
NONOPERATING REVENUES				
Interest revenue	56,506	104,582	557	161,645
INCOME (LOSS) BEFORE TRANSFERS	92,572	478,242	59,167	629,981
TRANSFERS IN (OUT)				
Transfer in	375,000	-	-	375,000
Transfers out	(407,261)	(350,000)	(9,209)	(766,470)
TOTAL TRANSFERS IN (OUT)	(32,261)	(350,000)	(9,209)	(391,470)
CHANGE IN NET ASSETS	60,311	128,242	49,958	238,511
Net assets, beginning of year	1,350,413	3,262,014	2,973	4,615,400
Net assets, end of year	\$ 1,410,724	\$ 3,390,256	\$ 52,931	\$ 4,853,911

See accompanying notes to financial statements.

Governmental
Activities

Internal
Service
Funds

\$ 1,863,157

-

-

1,863,157

1,890,824

(27,667)

-

(27,667)

-

-

-0-

(27,667)

189,130

\$ 161,463

Lake County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2006

	Business-type Activities			Total
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 166,047	\$ 321,054	\$ 125,410	\$ 612,511
Cash paid to suppliers	(139,194)	-	(88,343)	(227,537)
Cash received from/(paid to) other funds - net	33,674	-	-	33,674
Cash receipts from local units	30,076	-	-	30,076
NET CASH PROVIDED BY OPERATING ACTIVITIES	90,603	321,054	37,067	448,724
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	375,000	-	-	375,000
Transfers out	(407,261)	(350,000)	(9,209)	(766,470)
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	(32,261)	(350,000)	(9,209)	(391,470)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(746,542)	(418,591)	-	(1,165,133)
Maturity of investments	347,138	403,377	-	750,515
Interest revenue	56,506	104,582	557	161,645
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(342,898)	89,368	557	(252,973)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(284,556)	60,422	28,415	(195,719)
Cash and cash equivalents, beginning of year	1,295,899	1,956,166	6,463	3,258,528
Cash and cash equivalents, end of year	<u>\$ 1,011,343</u>	<u>\$ 2,016,588</u>	<u>\$ 34,878</u>	<u>\$ 3,062,809</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 36,066	\$ 373,660	\$ 58,610	\$ 468,336
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
(Increase) decrease in receivables	14,026	(19,439)	(24,000)	(29,413)
(Increase) decrease in due from local units	30,076	(39,845)	-	(9,769)
Increase (decrease) in accounts payable	(5,167)	1,731	2,457	(979)
(Decrease) in accrued liabilities	(17,222)	(70)	-	(17,292)
(Decrease) in due to others	(850)	(12,629)	-	(13,479)
Increase in due to other governmental funds	33,674	17,646	-	51,320
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 90,603	\$ 321,054	\$ 37,067	\$ 448,724

See accompanying notes to financial statements.

Governmental Activities
Internal Service Funds
<hr/>
\$ 1,863,157
(13,810)
(1,877,245)
<hr/>
(27,898)
-
<hr/>
-0-
-
-
<hr/>
-0-
<hr/>
(27,898)
179,224
<hr/>
\$ 151,326
<hr/>
\$ (27,667)
-
-
(231)
-
-
<hr/>
\$ (27,898)
<hr/>

Lake County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

December 31, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 338,377
Due from governmental units - State	<u>97,430</u>
TOTAL ASSETS	<u><u>\$ 435,807</u></u>
LIABILITIES	
Undistributed collections payable	\$ 75,386
Deposits payable	17,946
Due to other governmental units	
Federal/State	240,679
Local	60,851
Due to others	<u>40,945</u>
TOTAL LIABILITIES	<u><u>\$ 435,807</u></u>

See accompanying notes to financial statements.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2006

	Road Commission	Council on Aging	Drainage Districts	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 827,195	\$ 190,353	\$ 7,840	\$ 1,025,388
Accounts receivable				
State trunkline maintenance	47,735	-	-	47,735
Due on county road agreements	2,310	-	-	2,310
Motor vehicle highway funds	413,985	-	-	413,985
Other	24,406	-	-	24,406
Taxes receivable	-	274,536	-	274,536
Special assessments receivable	-	-	-	-0-
Due from other governments	-	15,265	-	15,265
Inventories				
Equipment material and parts	9,869	-	-	9,869
Road materials	281,799	-	-	281,799
Total current assets	1,607,299	480,154	7,840	2,095,293
Noncurrent assets				
Capital assets not being depreciated	100,437	-	-	100,437
Capital assets, net of accumulated depreciation	2,847,204	-	-	2,847,204
Total noncurrent assets	2,947,641	-0-	-0-	2,947,641
TOTAL ASSETS	4,554,940	480,154	7,840	5,042,934
LIABILITIES				
Current liabilities				
Accounts payable	37,234	24,518	-	61,752
Accrued liabilities	19,177	-	-	19,177
Deferred revenue	-	289,801	-	289,801
Current portion of long-term debt	36,350	-	-	36,350
Current portion of compensated absences	14,165	-	-	14,165
Total current liabilities	106,926	314,319	-0-	421,245
Noncurrent liabilities				
Compensated absences	127,487	-	-	127,487
TOTAL LIABILITIES	234,413	314,319	-0-	548,732
NET ASSETS				
Invested in capital assets	2,911,291	-	-	2,911,291
Restricted for other purposes	1,409,236	165,835	7,840	1,582,911
TOTAL NET ASSETS	\$ 4,320,527	\$ 165,835	\$ 7,840	\$ 4,494,202

See accompanying notes to financial statements.

Lake County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Drainage Districts	\$ 247	\$ -	\$ -	\$ -	\$ (247)
Council on Aging	218,510	-	-	-	(218,510)
Road Commission	3,776,485	394,064	2,820,342	259,509	(302,570)
TOTALS	\$ 3,995,242	\$ 394,064	\$ 2,820,342	\$ 259,509	(521,327)
General revenues					
Taxes					272,904
Investment earnings					54,501
Miscellaneous					10,255
Total general revenues and transfers					337,660
CHANGE IN NET ASSETS					(183,667)
Net assets, beginning of year					4,677,869
Net assets, end of year					<u>\$ 4,494,202</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Lake, Michigan was organized in 1872 and covers an area of approximately 572 square miles with the County seat located in the Village of Baldwin, Michigan. The County operates under an elected Board of Commissioners of seven (7) members and provides services to its approximately 8,500 residents in many areas including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and culture. Education is provided to citizens through three (3) local School Districts, four (4) Intermediate School Districts, and a Community College located in the County. The School Districts and College are separate governmental entities whose financial statements are not included herein in accordance with the National Council on Governmental Accounting (NCGA) Statement 3.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Lake County (primary government) and its component units. The component units described in Sections 2 and 3 below are included in the County's reporting entity because of the significance of their operational or financial relationship with the County.

2. Blended Component Units

The Lake County Building Authority is governed by a five (5) member Board appointed by the County Board of Commissioners. Although it is legally separate from the County, the Lake County Building Authority is reported as if it were part of the (blended) primary government because its sole purpose is to finance and construct the County's public buildings.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Lake County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Lake County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Lake County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The three (3) Board Members of the Road Commission are elected. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Lake County Council on Aging is governed by 19 appointees from various local aging assistance agencies. One of the members is from the Lake County Board of Commissioners. The Council on Aging is a nonprofit corporation dedicated to identifying the needs of seniors of the County and establishing long and short range goals to address those needs. The County Treasurer acts as a fiscal agent of all funds generated by a special millage and handles all financial aspects of the Council. The Lake County Council on Aging was not audited separately.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

The Lake County Drainage Districts come under the jurisdiction of the Lake County Road Commissioner due to the fact Lake County does not have a Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Road Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Road Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County. The Lake County Drainage Districts have not been audited separately.

4. Joint Ventures

The District 10 Health Department is a joint venture between 10 counties as detailed in the formation agreement between the counties, and was established to provide public health services to the 10 county regions. A copy of the agreement can be obtained at the County's clerk's office. Lake County appoints two (2) of the 20 members. All ten (10) Counties provide annual appropriations and pass-through the statutory amount of cigarette tax funding to subsidize operations. Lake County's contribution for the year ended December 31, 2006, was \$76,098.

5. Jointly Governed Organizations

The West Michigan Community Mental Health System provides comprehensive mental health services to Lake, Mason, and Oceana Counties. Operating revenues are derived from Federal, State, and local governments as well as from fees for services. The West Michigan Community Mental Health System is governed by a twelve (12) member Board appointed by the Board of Commissioners of the three (3) Counties it services. Lake County appropriated \$55,250 as its operating contribution to the West Michigan Community Mental Health System for the County's year ended December 31, 2006. A copy of their audit may be obtained at their administrative offices.

The West Michigan Area Agency on Aging provides comprehensive services to older individuals residing in ten (10) west Michigan counties. Operating revenues are derived from Federal, State, and local governments as well as fees for services. The West Michigan Area Agency on Aging is governed by a twenty (20) member Board appointed by the Board of Commissioners of the ten (10) Counties it services. A copy of the Area Agency on Aging audit may be obtained at their administrative offices.

Lake County, in conjunction with twenty-two (22) other Counties, has entered into an agreement that created the Northern Michigan Substance Abuse Commission. This organization's Board is composed of thirty-six (36) members, of which one (1) is appointed by Lake County. The County's financial responsibility is to pass through a portion of the Convention and Tourism revenues received to the Commission. For the year ended December 31, 2006, the County passed through \$31,081.

Five CAP, Inc. is a non-profit corporation formed under the laws of the State of Michigan. This organization's Board is composed of fifteen (15) members, of which one (1) is appointed by Lake County. The organization receives all of its funding from State and Federal grants and, as a result, the County has no financial responsibility other than potential liability related to appropriate use of the Federal funds passed through to Five CAP, Inc. The County passed through to Five CAP, Inc. as a subrecipient \$26,130 in Federal grant dollars.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Sheriff's Road Patrol Fund is used to report road patrol services that are financed primarily by taxes and expenditures within the fund all to be used for the operation of the system.
- c. The Revenue Sharing Reserve Fund was established in 2004 to account for the shift of State Revenue Sharing dollars from State to local funding.
- d. The Jail TRV Fund is used to report jail services that are financed primarily by Federal and State grants and expenditures within the fund all to be used for the operation of the system.
- e. The Ambulance Fund is used to report ambulance services that are financed primarily by taxes and expenditures within the fund all to be used for the operation of the ambulance system.
- f. The Delinquent Tax Revolving Funds account for money advanced by the County to other local taxing units and various county funds to pay for their delinquent real property taxes. Revenues are generated by the collection of the delinquent real property taxes, penalties, and interest.
- g. The Treasurer's Unrestricted Fund accounts for interest collected on delinquent taxes and funds are subsequently relinquished to the proper authority.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

8. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

9. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit and mutual funds with a maturity from date of purchase of 90 days or less.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Investments

Investments consist of certificates of deposit and U.S. Treasury bonds with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

11. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

12. Inventories

Inventories of the Central Stores (Internal Service) Fund consist of miscellaneous office supplies on hand for resale, which are stated at the lower of first-in, first-out cost or market.

Inventories of the Road Commission (Component Unit) consist of various operating parts, supplies, and road material and are stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

13. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year.

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 - 30 years
Buildings and improvements	10 - 50 years
Equipment	5 - 15 years
Vehicles	5 years

COMPONENT UNIT - ROAD COMMISSION

Capital assets which include property, equipment, and infrastructure assets (road, bridges, and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Capital Assets - continued

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the Road Commission.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals, and similar items) in 2006 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure follows:

Buildings	30 - 50 years
Road equipment	5 - 8 years
Shop equipment	10 years
Office equipment	4 - 10 years
Engineering equipment	4 - 10 years
Infrastructure - bridges	12 - 50 years
Infrastructure - roads	5 - 30 years
Infrastructure - traffic signals	15 years

14. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Interfund Transactions - continued

Internal Service Funds are used to record charges for services to all County departments and funds as operating transfers or operating revenue. All County funds record these payments to the Internal Service Funds as operating transfers or operating expenditures/expenses.

16. Accrued Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of December 31, 2006, including related payroll taxes, is recorded in the government-wide financial statements.

17. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown in the financial statements were prepared on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results. The County employs the following procedures in establishing the primary government budgetary data reflected in the financial statements.

Public Act 493 of 2000 amended certain budgeting related sections of the Uniform Budgeting and Accounting Act and was given immediate effect. The amendments included the rescission of the requirement for reporting debt service fund budgets in the financial statements. As a result, the Debt Service Funds' budgets are no longer included in the financial statements.

- a. Prior to October 1, County departments in conjunction with the Clerk's Office, prepare and submit their proposed operating budgets to the Ways and Means Committee who reviews and makes recommendations for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to December 31, the budgets are legally enacted through passage of a budget resolution.
- d. The budgets are legally adopted at the activity, functional, and account level for the General Fund and the fund level for the Special Revenue Funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all fund budgets are maintained at the activity and account level. The Clerk is authorized to transfer budget amounts between accounts without Board approval.
- e. Budgets for certain Capital Projects Funds are made on a project basis spanning more than one year.
- f. The County does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- g. Budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material to the original appropriations that were adopted.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

19. Federal Programs

Federal Programs are accounted for in specific Special Revenue Funds or as part of the various fund types to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit Reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTE B: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT

The County utilizes pooled cash accounts for approximately thirty-seven (37) funds. Cash overdrafts of individual funds as of December 31, 2006, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Special Revenue Funds			
Jail TRV	\$(823,643)	\$ -	\$(823,643)
Pleasant Plains Officer	(107)	-	(107)
Yates Township Officer	(9,507)	-	(9,507)
Emergency 911	(173,313)	-	(173,313)
Friend of the Court	(25,076)	-	(25,076)
Building Inspection	(32,073)	-	(32,073)
Crime Victims	(6,280)	-	(6,280)
Law Library	(18,014)	-	(18,014)
Secondary Road Patrol	(10,159)	2,000	(8,159)
Child Care Probate	(222,289)	14,324	(207,965)
Capital Projects Fund			
TRV Capital Projects	(32,828)	2,071	(30,757)
Internal Service Fund			
Central Stores	(1,300)	-	(1,300)
TOTAL REPORTING ENTITY	<u>\$(1,354,589)</u>	<u>\$ 18,395</u>	<u>\$(1,336,194)</u>

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The County utilizes various pooled cash accounts and investments for approximately thirty-seven (37) funds. The County's pooled cash accounts consist of a common checking account and mutual funds.

The County's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Internal Service Funds, (except for the Delinquent Tax Revolving Funds), Trust and Agency Funds, and the component unit funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are held separately by several of the County's funds.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. United States government or Federal agency obligation repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of December 31, 2006, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 4,290,347	\$ 4,185,892
Savings	3,441	3,988
Money market	936,622	921,682
Certificates of deposit	<u>1,175,133</u>	<u>1,175,133</u>
Total primary government	6,405,543	6,286,695
COMPONENT UNITS		
Checking	507,456	507,158
Certificates of deposit	<u>517,832</u>	<u>517,832</u>
Total component units	1,025,288	1,024,990
FIDUCIARY FUNDS		
Checking	<u>338,377</u>	<u>431,180</u>
TOTAL REPORTING ENTITY	<u>\$ 7,769,208</u>	<u>\$ 7,742,865</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of December 31, 2006, the primary government and component unit accounts were insured by the FDIC for \$404,116 and the amount of \$7,338,749 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of December 31, 2006, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's/ S & P Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Insured or registered for which the securities are held by the County's agent in the County's name -				
U.S. Treasury Securities	\$ 461,135	\$ 461,135	AAA	1-3 years
U.S. Treasury Bonds	<u>45,642</u>	<u>45,642</u>	AAA	1-7 years
	<u>\$ 506,777</u>	<u>\$ 506,777</u>		

The investments of U.S. Treasury investments are not insured, but are backed by the full faith and credit of the Federal Government.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2006, rating information on the County's investments is presented above.

Interest rate risk

The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing the investment portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2006:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 5,232,286	\$ 1,025,388	\$ 338,377	\$ 6,596,051
Investments	<u>1,681,910</u>	<u>-</u>	<u>-</u>	<u>1,681,910</u>
	<u>\$ 6,914,196</u>	<u>\$ 1,025,388</u>	<u>\$ 338,377</u>	<u>\$ 8,277,961</u>

The primary government cash and cash equivalents caption on the Statement of Net Assets include \$1,876 in imprest cash and the component units have \$100 of imprest cash.

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at December 31, 2006:

Due to General Fund from:	
Treasurer's Unrestricted Fund	\$ 361,432
Internal service funds	<u>6</u>
	<u>\$ 361,438</u>
Due to Sheriff Road Patrol Fund from:	
General Fund	<u>\$ 2,635</u>
Due to Revenue Sharing Reserve Fund from:	
General Fund	<u>\$ 1,108,695</u>
Due to Treasurer's Unrestricted Fund from:	
Nonmajor governmental funds	<u>\$ 35,962</u>
Due to Delinquent Tax Revolving Fund from:	
Treasurer's Unrestricted Fund	<u>\$ 100</u>
Due to internal service funds from:	
General Fund	<u>\$ 341</u>
Due to nonmajor governmental funds from:	
Treasurer's Unrestricted Fund	<u>\$ 16,000</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business-type funds, and component units have been eliminated.

Transfers to General Fund from:	
Revenue Sharing Fund	\$ 203,984
Nonmajor enterprise funds	<u>2,261</u>
	<u>\$ 206,245</u>
Transfer to Jail TRV from:	
Nonmajor enterprise funds	<u>\$ 6,948</u>
Transfers to Treasurer's Unrestricted Fund from:	
General Fund	\$ 25,000
Delinquent Tax Revolving Fund	<u>350,000</u>
	<u>\$ 375,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 311,569
Sheriff Road Patrol Fund	65,117
Ambulance Fund	222,278
Nonmajor governmental funds	250,455
Treasurer's Unrestricted Fund	<u>407,261</u>
	<u>\$ 1,256,680</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

PRIMARY GOVERNMENT

	Balance <u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,324,800	\$ -	\$ -	\$ 3,324,800
Construction in progress	<u>991,297</u>	<u>713,891</u>	<u>-</u>	<u>1,705,188</u>
Total capital assets not being depreciated	4,316,097	713,891	-0-	5,029,988
Capital assets being depreciated				
Land improvements	98,002	-	-	98,002
Buildings and improvements	9,175,588	-	-	9,175,588
Furniture and equipment	724,960	88,539	-	813,499
Vehicles	<u>584,913</u>	<u>111,655</u>	<u>-</u>	<u>696,568</u>
Subtotal at historical cost	10,583,463	200,194	-0-	10,783,657

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	<u>Balance</u> <u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2006</u>
Governmental activities - continued				
Less accumulated depreciation for:				
Land improvements	\$(49,814)	\$(8,717)	\$ -	\$(58,531)
Buildings and improvements	(224,592)	(229,497)	-	(454,089)
Furniture and equipment	(660,181)	(135,310)	-	(795,491)
Vehicles	(380,733)	(137,916)	-	(518,649)
Subtotal at historical cost	<u>(1,315,320)</u>	<u>(511,440)</u>	<u>-0-</u>	<u>(1,826,760)</u>
Net capital assets being depreciated	<u>9,268,143</u>	<u>(311,246)</u>	<u>-0-</u>	<u>8,956,897</u>
Capital assets, net	<u>\$ 13,584,240</u>	<u>\$ 402,645</u>	<u>\$ -0-</u>	<u>\$ 13,986,885</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 94,095
Public safety	363,122
Health and welfare	51,789
Recreation and cultural	400
Community and economic development	<u>2,034</u>
Total depreciation expense	<u>\$ 511,440</u>

COMPONENT UNITS

	<u>Balance</u> <u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2006</u>
Component Unit - Road Commission				
Capital assets not being depreciated:				
Land	\$ 48,825	\$ 13,000	\$ -	\$ 61,825
Construction in progress	-	8,903	-	8,903
Depletable assets	<u>29,709</u>	<u>-</u>	<u>-</u>	<u>29,709</u>
Subtotal at historical cost	78,534	21,903	-0-	100,437
Capital assets being depreciated:				
Buildings	1,363,180	-	-	1,363,180
Road equipment	4,184,679	241,788	(104,377)	4,322,090
Shop equipment	133,943	-	-	133,943
Engineering equipment	27,167	-	-	27,167
Yard and storage equipment	142,200	10,139	-	152,339
Office equipment	82,194	-	-	82,194
Infrastructure - roads	<u>1,366,063</u>	<u>410,358</u>	<u>-</u>	<u>1,776,421</u>
Subtotal at historical cost	7,299,426	662,285	(104,377)	7,857,334

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS - CONTINUED

	Balance <u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2006</u>
Component Unit - Road Commission - continued				
Less accumulated depreciation for:				
Buildings	\$(477,598)	\$(28,583)	\$ -	\$(506,181)
Road equipment	(3,503,625)	(303,392)	104,377	(3,702,640)
Shop equipment	(102,542)	(4,479)	-	(107,021)
Engineering equipment	(20,478)	(1,064)	-	(21,542)
Yard and storage equipment	(110,229)	(12,822)	-	(123,051)
Office equipment	(72,402)	(670)	-	(73,072)
Infrastructure - roads	(289,672)	(186,951)	-	(476,623)
Subtotal at historical cost	<u>(4,576,546)</u>	<u>(537,961)</u>	<u>104,377</u>	<u>(5,010,130)</u>
Net capital assets being depreciated	<u>2,722,880</u>	<u>124,324</u>	<u>-0-</u>	<u>2,847,204</u>
Capital assets, net	<u>\$ 2,801,414</u>	<u>\$ 146,227</u>	<u>\$ -0-</u>	<u>\$ 2,947,641</u>

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the County for the year ended December 31, 2006:

	Restated Balance <u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2006</u>	Amounts Due Within <u>One Year</u>
PRIMARY GOVERNMENT					
1991 Building Authority Bonds	\$ 945,000	\$ -	\$(130,000)	\$ 815,000	\$ 140,000
1998 Building Authority Bonds	5,676,000	-	(141,000)	5,535,000	148,000
2006 USDA Building Authority Bonds	4,453,340	726,016	(85,055)	5,094,301	-
Accrued sick and vacation	<u>164,578</u>	<u>264,704</u>	<u>(254,500)</u>	<u>174,782</u>	<u>43,696</u>
TOTAL PRIMARY GOVERNMENT	11,238,918	990,720	(610,555)	11,619,083	331,696
COMPONENT UNITS					
Road Commission					
Installment purchase agreement	-	60,000	(23,650)	36,350	36,350
Accumulated compensated absences	<u>213,759</u>	<u>108,933</u>	<u>(181,040)</u>	<u>141,652</u>	<u>14,165</u>
TOTAL COMPONENT UNITS	<u>213,759</u>	<u>168,933</u>	<u>(204,690)</u>	<u>178,002</u>	<u>50,515</u>
TOTAL REPORTING ENTITY	<u>\$11,452,677</u>	<u>\$ 1,159,653</u>	<u>\$(815,245)</u>	<u>\$11,797,085</u>	<u>\$ 382,211</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Lake County is party to three (3) long-term lease agreements for rental of State of Michigan Family Independence Agency building, the Courthouse, and Jail from the Lake County Building Authority. These lease agreements stipulate that annual rentals will be paid by the County and the State government to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired on these buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Bonds payable at December 31, 2006 are as follows:

\$2,000,000 Lake County Building Authority Bonds Series 1991, dated January 1, 1991 due in annual installments ranging from \$140,000 to \$190,000 through October 1, 2011, with interest of 7.0 percent, payable semi-annually.	\$ 815,000
\$6,500,000 Lake County Building Authority Bonds; Series 1998, Bond No. 1, 2, and 3, dated June 30, 1998; due in annual installments ranging from \$148,000 to \$396,000 through June 1, 2028; with interest of 4.75 percent, payable semi-annually.	5,535,000
\$5,275,000 2006 USDA Building Authority Bonds dated June 30, 2006 maturity of which is not yet known due to it still being drawn upon. The County draws on the bonds as project expenditures are submitted. At project completion a maturity schedule will be set. Due to the unknown maturity schedule, it is not possible to anticipate the amount of principal and interest that will be due each year.	<u>5,094,301</u>
	<u>\$11,444,301</u>

Accumulated Vacation and Sick

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

The dollar amount of these vested rights, including related payroll taxes, amounted to \$174,782 at December 31, 2006.

COMPONENT UNITS

The Road Commission has an installment purchase agreement to Strick Topsoil, due in monthly installments of \$6,000 with no interest through June 2007 with an outstanding balance at December 31, 2006 of \$36,350.

The annual requirements to pay the long-term debt principal and interest outstanding for the following bonds of the primary government at December 31, 2006 are as follows:

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: LONG-TERM DEBT - CONTINUED

Primary Government

Year Ending December 31,	Direct County Obligations	
	Principal	Interest
2007	\$ 288,000	\$ 319,963
2008	305,000	303,133
2009	323,000	285,270
2010	345,000	266,328
2011	369,000	246,003
2012-2016	1,026,000	1,027,900
2017-2021	1,294,000	759,953
2022-2026	1,633,000	422,038
2027-2028	767,000	54,560
	<u>\$ 6,350,000</u>	<u>\$ 3,685,148</u>

The \$5,094,301 related to the 2006 USDA Building Authority Bonds is not included in the above schedule because the bonds have not been fully drawn down and as a result the maturity schedule is unknown at December 31, 2006.

NOTE H: EMPLOYEE RETIREMENT SYSTEM

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

- Age 50 with 25 or more years of credited service
- Age 55 with 15 or more years of credited service
- Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)
- Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees hired prior to 1985 may be allowed to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The County is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2006 the County's annual pension cost of \$363,925 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 4,207,303	\$ 4,662,926	\$ 5,136,196
Actuarial accrued liability (AAL) (entry age)	5,167,418	5,657,842	6,324,360
Unfunded AAL	960,115	994,916	1,188,164
Funded ratio	81%	82%	81%
Covered payroll	3,161,760	3,237,940	3,389,468
UAAL as a percentage of covered payroll	30%	31%	35%
Annual pension cost	311,726	322,529	363,925
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - ROAD COMMISSION

Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 16.08% of annual covered payroll. The Road Commission employees are required to contribute 2% of their annual covered payroll to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$235,315 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

Three Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2004	\$ 188,444	100 %	-
12/31/2005	205,693	100	-
12/31/2006	235,315	100	-

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2003	\$ 4,627,401	\$ 6,392,274	\$ 1,764,873	72 %	\$ 1,219,313	145 %
12/31/2004	4,854,999	6,781,539	1,926,540	72	1,180,521	163
12/31/2005	5,052,660	7,287,772	2,235,112	69	1,170,898	191

NOTE I: CONTINGENT LIABILITIES

The County participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal programs and the periodic program compliance audits of many of the State programs have not yet been conducted, completed, or resolved. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various other legal actions pending against the County and its component units. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by County and/or component unit management and legal counsel to be immaterial.

NOTE J: RISK MANAGEMENT

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Lake County with loss protection for general and auto liability, motor vehicle physical damage, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE J: RISK MANAGEMENT - CONTINUED

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED

<u>Maximum Retention Type of Risk</u>	<u>Per Occurrence</u>
General and auto liability	\$ 75,000
Motor vehicle physical damage	30,000
Property and crime coverage	100,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Liability insurance claims are expensed as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred, but not reported, claims.

The Authority has reserved fund balance to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that Lake County incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The County has not been informed of any special assessments being required.

In addition, the Authority has accumulated resources to create and fund an internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$121,000, net of reinsurance recoveries for any one member in any one year. Aggregate paid losses in excess of \$121,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund is insufficient to fund Lake County's losses, the remaining liability shall become the responsibility of the Authority as a whole.

At December 31, 2006, the County had funds on deposit of \$80,809 with the Authority. In 2006, the County had \$44,783 in reported claims.

The County also participates in a pool, the Michigan Counties' Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The County has not been informed of any special assessments being required.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE J: RISK MANAGEMENT - CONTINUED

COMPONENT UNIT - ROAD COMMISSION

Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of road, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

NOTE K: PROPERTY TAXES AND TAX RECEIVABLE

The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the next February.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy will be shifting over the next three years from winter to summer.

Taxable values are established annually by the local municipalities and are equalized by the County based on State statutes at an estimated percentage of the current market value. Real and personal property in Lake County for the 2006 levy had a taxable value of \$441,972,426 on which ad valorem taxes levied for County general operating purposes was 6.0860 mills. The Ambulance, Council on Aging, and Sheriff Road Patrol Funds levied 1.2464, 0.6557, and 2.7159 mills, respectively.

Taxes are collected by the various tax collecting units from the date of the levy and remitted to the County through the Trust and Agency Fund for distribution to the General, Special Revenue, and Component Unit Funds. The property tax levied December 1 is accrued as current tax receivable with the appropriate deferral, and is budgeted as revenue in the subsequent year in the General; Ambulance and Sheriff Road Patrol (Special Revenue); and the Council on Aging (Component Unit) Fund.

Taxes receivable recorded in the respective funds at December 31, 2006, are as follows:

Taxes Receivable	General	Special Revenue			Component Unit	Enterprise		Totals
		Revenue Sharing Reserve	Sheriff Road Patrol	Ambulance	Council on Aging	Delinquent Tax Revolving Funds	Treasurer's Unrestricted	
Current	\$ 505,988	\$ 818,609	\$ 1,137,129	\$ 521,863	\$ 274,536	\$ -	\$ -	\$3,258,125
Delinquent	-	-	-	-	-	923,940	19,324	943,264
	<u>\$ 505,988</u>	<u>\$ 818,609</u>	<u>\$ 1,137,129</u>	<u>\$ 521,863</u>	<u>\$ 274,536</u>	<u>\$ 923,940</u>	<u>\$ 19,324</u>	<u>\$4,201,389</u>

The delinquent taxes receivable represents unpaid real property taxes in the Enterprise Funds.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE K: PROPERTY TAXES AND TAX RECEIVABLE - CONTINUED

By agreement with the various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records a corresponding delinquent tax receivable.

These receivables are pledged to a bank for the payment of the notes payable, the proceeds of which were used to liquidate the amounts owed to the General and Special Revenue Funds and other taxing authorities. Subsequent collection on the delinquent taxes receivable, plus interest and administration fees thereon, and investment earnings are used to service the notes payable.

Any real property taxes not collected are charged back to the General and Special Revenue Funds and all other taxing authorities affected. Past experience has indicated that such chargebacks should not be material and, as a result there has been no establishment of an amount for uncollectible taxes receivable in any of the funds. This activity is accounted for in the Delinquent Tax Revolving Funds.

NOTE L: FUND DEFICITS

The following funds had a fund equity deficit at December 31, 2006:

	<u>Deficit</u>
PRIMARY GOVERNMENT	
Special Revenue Funds	
Child Care Probate	\$ 219,032
Jail TRV	164,495
Emergency 911	172,695
Building Inspection	11,168

NOTE M: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance and net assets are used to earmark a portion of equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance and net assets indicates that portion of fund balance and net assets that the County has set aside for specific purposes.

The following are the various fund balance reserves as of December 31, 2006:

PRIMARY GOVERNMENT	
Debt Service Funds	
Building Authority	
Reserved for bond principal and interest redemption	<u>\$ 493,294</u>

The following are the various fund balance designations as of December 31, 2006:

PRIMARY GOVERNMENT	
Designated for other purposes	
General Fund	
Designated for K-9 expenditures	<u>\$ 937</u>

The County has recorded various reserves of net assets in the proprietary funds that reflect management's plans for use of those funds. Since reserves are not appropriate for presentation on the face of the applicable statements of net assets, the reserves are listed here.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE M: FUND EQUITY RESERVES AND DESIGNATIONS - CONTINUED

The following is the net asset reserve as of December 31, 2006:

Internal Service Funds	
Reserved for employee benefits	<u>\$ 152,620</u>

NOTE N: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2006:

PRIMARY GOVERNMENT

Governmental activities

Restricted for

Public safety

K-9 Expenditures	\$ 937
Sheriff Road Patrol	423,056
E911 Wireless Service	296,418
Drug Law Enforcement	33,078
D.A.R.E. Program	16,354
Secondary Road Patrol	10,929
Criminal Justice Training	1,234
Local Officers Training	8,060
Yates Township Officer	<u>4</u>

\$ 790,070

Other purposes

Employee Benefits	\$ 152,620
Revenue Sharing	1,927,304
Ambulance	565,105
Register of Deeds Automation	43,001
Crime Victims	1,331
Law Library	5,463
Circuit Court Marriage Council	<u>23,005</u>

\$ 2,717,829

COMPONENT UNITS

Other purposes

Restricted for

County Roads	\$ 1,409,236
Aging Programs	165,835
Drainage Projects	<u>7,840</u>

\$ 1,582,911

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the body of the financial statements, the County's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended December 31, 2006, the County incurred expenditures in the General Fund and seven (7) Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Financial and I.T. Services	\$ 85,040	\$ 127,518	\$ 42,478
Cooperative extension	60,257	67,254	6,997
Public Safety			
Marine safety	16,300	16,365	65
Health and welfare			
Veterans burials	6,700	7,950	1,250
Capital outlay	17,905	31,435	13,530
Transfers to other funds			
Treasurer's Unrestricted Fund	-	25,000	25,000
E911 Fund	-	89,569	89,569
Friend of the Court Fund	-	1,000	1,000
Special Revenue Funds			
Jail TRV	2,263,845	2,267,067	3,222
Social Services EZ/EC Pass Through Grant	-	26,130	26,130
Building Inspection	285,100	285,250	150
Drug Law Enforcement	-	5,229	5,229
Criminal Justice Training Act	3,800	4,797	997
Child Care Probate	478,602	517,589	38,987
D.H.S. Building	227,926	233,244	5,318

REQUIRED SUPPLEMENTARY INFORMATION

Lake County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Taxes				
Current and delinquent property taxes	\$ 2,572,638	\$ 2,572,638	\$ 2,873,688	\$ 301,050
Tax reverted land	2,000	2,000	-	(2,000)
Payments in lieu of taxes	133,000	133,000	151,867	18,867
Total taxes	2,707,638	2,707,638	3,025,555	317,917
Licenses and permits				
Gun permits	1,000	1,000	1,222	222
Dog licenses	5,600	5,600	8,771	3,171
Marriage license fees	250	250	360	110
Total licenses and permits	6,850	6,850	10,353	3,503
Intergovernmental - Federal/State				
Probate Judge's salary	139,919	139,919	149,941	10,022
Circuit Court Judge's salary	8,687	8,687	6,516	(2,171)
Juvenile officer	27,317	27,317	27,317	-0-
District Court case flow assistance	5,000	5,000	3,063	(1,937)
Court equity	90,000	90,000	75,708	(14,292)
Voter aid registration	2,200	2,200	1,346	(854)
Cigarette tax	-	-	6,693	6,693
Marine safety	9,871	26,171	24,942	(1,229)
Snowmobile grant	-	-	17,611	17,611
ORV grant	16,407	40,393	19,223	(21,170)
Homeland security grants	37,128	-	-	-0-
D.H.S. grant - P.A.	3,000	3,000	60,731	57,731
Remonumentation	46,957	49,859	50,650	791
Convention and tourism tax	60,000	61,081	62,162	1,081
Liquor law enforcement	9,000	9,000	9,041	41
Federal food stamp program	-	-	360	360
Federal forest grant	4,500	4,500	4,500	-0-
Total intergovernmental - Federal/State	459,986	467,127	519,804	52,677
Charges for services				
Circuit Court costs	15,000	15,000	20,902	5,902
Circuit Court services	8,300	8,300	6,540	(1,760)
District Court costs	170,000	170,000	124,145	(45,855)
District Court services	55,000	55,000	56,021	1,021
Probate Court services	24,000	24,000	16,931	(7,069)
Bond processing fees	1,000	1,000	380	(620)
County Treasurer services	2,500	2,500	6,611	4,111

Lake County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - CONTINUED

For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Charges for services - continued				
County Clerk services	\$ 4,500	\$ 4,500	\$ 7,516	\$ 3,016
Register of Deeds services	151,000	151,000	168,535	17,535
Inmate housing	55,000	55,000	96,775	41,775
Sheriff department services	5,500	5,500	19,559	14,059
Administrative services	121,126	121,279	121,038	(241)
Other	5,100	5,100	5,230	130
Total charges for services	618,026	618,179	650,183	32,004
Fines and forfeits				
Bond forfeitures	6,000	6,000	9,400	3,400
Interest and rents				
Interest on investments	4,000	4,000	182,762	178,762
Other				
Donations	-	-	5,002	5,002
Sale of land	750	750	763	13
Other sales	1,100	1,100	6,549	5,449
Insurance dividends	15,000	15,000	23,349	8,349
Reimbursements and refunds	27,700	27,700	34,881	7,181
Other	85,550	98,815	81,564	(17,251)
Total other	130,100	143,365	152,108	8,743
Total revenues	3,932,600	3,953,159	4,550,165	597,006
Transfers in				
Commissary	2,100	2,100	2,261	161
Treasurer's Unrestricted Fund	432,174	437,174	-	(437,174)
Revenue Sharing Reserve Fund	220,000	220,000	203,984	(16,016)
Total other financing sources	654,274	659,274	206,245	(453,029)
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 4,586,874</u>	<u>\$ 4,612,433</u>	<u>\$ 4,756,410</u>	<u>\$ 143,977</u>

Lake County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL

For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
General government				
Board of Commissioners	\$ 214,870	\$ 213,935	\$ 202,891	\$ 11,044
Trial Court	795,637	790,626	762,406	28,220
Circuit Court	1,475	1,475	1,380	95
Jury board	2,600	2,130	996	1,134
Public guardian	6,683	6,683	6,668	15
Elections	68,168	68,168	42,224	25,944
Financial and I.T. Services	76,430	85,040	127,518	(42,478)
Legal counsel	16,000	16,000	6,063	9,937
Clerk	230,802	221,077	213,468	7,609
Equalization	209,115	219,025	217,256	1,769
Prosecuting Attorney	245,949	245,924	234,212	11,712
Register of Deeds	69,413	74,043	73,661	382
Surveying/Remonumentation	49,428	52,483	52,483	-0-
Central copying	22,750	22,750	9,589	13,161
Treasurer	177,780	177,780	169,616	8,164
Cooperative extension	59,840	60,257	67,254	(6,997)
Courthouse and grounds	431,803	432,538	370,068	62,470
Soil conservation	3,000	3,000	3,000	-0-
Total general government	2,681,743	2,692,934	2,560,753	132,181
Public safety				
Sheriff - general	222,106	222,106	216,918	5,188
Marine safety	-	16,300	16,365	(65)
Snowmobile safety	-	18,665	18,658	7
ORV	-	23,986	19,223	4,763
Traffic safety	-	2,404	2,399	5
Jail building and grounds	945,846	941,586	864,047	77,539
Jail kitchen	79,800	79,800	67,683	12,117
Animal control	121,621	121,621	109,916	11,705
Total public safety	1,369,373	1,426,468	1,315,209	111,259
Community and economic development				
Planning appropriation	-	3,360	3,360	-0-

Lake County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL - CONTINUED

For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Health and welfare				
District Health department	\$ 95,629	\$ 95,629	\$ 76,098	\$ 19,531
Substance abuse appropriation	30,000	31,081	31,081	-0-
Medical examiner	43,476	43,476	35,768	7,708
Veterans burials	6,700	6,700	7,950	(1,250)
Mental Health	55,250	55,250	55,250	-0-
Department of Human Services	26,500	26,500	26,500	-0-
Total health and welfare	257,555	258,636	232,647	25,989
Other				
Postage	30,000	30,183	23,578	6,605
Other	16,256	16,256	13,425	2,831
Total other	46,256	46,439	37,003	9,436
Capital outlay	15,947	17,905	31,435	(13,530)
TOTAL EXPENDITURES	4,370,874	4,445,742	4,180,407	265,335
OTHER FINANCING USES				
Transfers to other funds				
Child Care Probate Fund	216,000	224,888	221,000	3,888
E911 Fund	-	-	89,569	(89,569)
Friend of the Court Fund	-	-	1,000	(1,000)
Treasurer's Unrestricted Fund	-	-	25,000	(25,000)
TOTAL OTHER FINANCING USES	216,000	224,888	336,569	(111,681)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 4,586,874	\$ 4,670,630	\$ 4,516,976	\$ 153,654

Lake County, Michigan

Sheriff Road Patrol

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,101,683	\$ 1,101,683	\$ 1,134,407	\$ 32,724
Other	-	-	27,590	27,590
TOTAL REVENUES	1,101,683	1,101,683	1,161,997	60,314
EXPENDITURES				
Current				
Public safety	984,946	962,946	903,245	59,701
Capital outlay	51,620	73,620	70,336	3,284
TOTAL EXPENDITURES	1,036,566	1,036,566	973,581	62,985
EXCESS OF REVENUES OVER EXPENDITURES	65,117	65,117	188,416	123,299
OTHER FINANCING USES				
Transfer out	(65,117)	(65,117)	(65,117)	-0-
NET CHANGE IN FUND BALANCE	-0-	-0-	123,299	123,299
Fund balance, beginning of year	299,757	299,757	299,757	-0-
Fund balance, end of year	\$ 299,757	\$ 299,757	\$ 423,056	\$ 123,299

Lake County, Michigan

Jail TRV

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - Federal/State	\$ 2,197,845	\$ 2,197,845	\$ 2,430,151	\$ 232,306
Other	51,000	51,000	55,878	4,878
TOTAL REVENUES	2,248,845	2,248,845	2,486,029	237,184
EXPENDITURES				
Current				
Public safety	1,904,420	1,931,920	1,954,022	(22,102)
Capital outlay	29,425	29,425	27,216	2,209
Debt service	300,000	272,500	285,829	(13,329)
TOTAL EXPENDITURES	2,233,845	2,233,845	2,267,067	(33,222)
EXCESS OF REVENUES OVER EXPENDITURES	15,000	15,000	218,962	203,962
OTHER FINANCING SOURCES (USES)				
Transfer in	15,000	15,000	6,948	(8,052)
Transfer out	(30,000)	(30,000)	-	30,000
TOTAL OTHER FINANCING SOURCES (USES)	(15,000)	(15,000)	6,948	21,948
NET CHANGE IN FUND BALANCE	-0-	-0-	225,910	225,910
Fund (deficit), beginning of year	(390,405)	(390,405)	(390,405)	-0-
Fund (deficit), end of year	\$ (390,405)	\$ (390,405)	\$ (164,495)	\$ 225,910

Lake County, Michigan

Revenue Sharing Reserve

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 828,000	\$ 828,000	\$ 818,608	\$ (9,392)
EXPENDITURES				
Current				
General government	-	-	-	-0-
EXCESS OF REVENUES OVER EXPENDITURES	828,000	828,000	818,608	(9,392)
OTHER FINANCING USES				
Transfer out	(220,000)	(220,000)	(203,984)	16,016
NET CHANGE IN FUND BALANCE	608,000	608,000	614,624	6,624
Fund balance, beginning of year	1,312,680	1,312,680	1,312,680	-0-
Fund balance, end of year	<u>\$ 1,920,680</u>	<u>\$ 1,920,680</u>	<u>\$ 1,927,304</u>	<u>\$ 6,624</u>

Lake County, Michigan

Ambulance

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 526,925	\$ 526,925	\$ 520,795	\$ (6,130)
Interest	200	200	937	737
TOTAL REVENUES	527,125	527,125	521,732	(5,393)
EXPENDITURES				
Current				
Health and welfare	304,847	304,847	297,423	7,424
EXCESS OF REVENUES OVER EXPENDITURES	222,278	222,278	224,309	2,031
OTHER FINANCING USES				
Transfer out	(222,278)	(222,278)	(222,278)	-0-
NET CHANGE IN FUND BALANCE	-0-	-0-	2,031	2,031
Fund balance, beginning of year	563,074	563,074	563,074	-0-
Fund balance, end of year	\$ 563,074	\$ 563,074	\$ 565,105	\$ 2,031

OTHER SUPPLEMENTARY INFORMATION

Lake County, Michigan
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET

December 31, 2006

	Special		
	Pleasant Plains Township Officer	Yates Township Officer	Emergency 911
ASSETS			
Cash and cash equivalents	\$ (107)	\$ (9,507)	\$ (173,313)
Investments	-	-	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	-	618
Local	547	11,325	-
TOTAL ASSETS	<u>\$ 440</u>	<u>\$ 1,818</u>	<u>\$ (172,695)</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 9,760
Accrued liabilities	440	1,814	12,969
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	440	1,814	22,729
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	-	4	(195,424)
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>-0-</u>	<u>4</u>	<u>(195,424)</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 440</u>	<u>\$ 1,818</u>	<u>\$ (172,695)</u>

Revenue				
Education Grants	Friend of the Court	Special Services EZ/EC Pass Through Grant	Building Inspection	Register of Deeds Automation
\$ 14,915	\$ (25,076)	\$ -	\$ (32,073)	\$ 52,359
-	-	-	-	-
-	-	-	29,169	-
-	-	-	-	-
-	32,012	108,001	-	-
-	-	-	-	-
<u>\$ 14,915</u>	<u>\$ 6,936</u>	<u>\$ 108,001</u>	<u>\$ (2,904)</u>	<u>\$ 52,359</u>
\$ -	\$ 1,000	\$ -	\$ 3,851	\$ 9,358
-	4,027	-	4,413	-
-	-	108,001	-	-
-	-	-	-	-
-	-	-	-	-
-0-	5,027	108,001	8,264	9,358
-	-	-	-	-
14,915	1,909	-	(11,168)	43,001
-	-	-	-	-
<u>14,915</u>	<u>1,909</u>	<u>-0-</u>	<u>(11,168)</u>	<u>43,001</u>
<u>\$ 14,915</u>	<u>\$ 6,936</u>	<u>\$ 108,001</u>	<u>\$ (2,904)</u>	<u>\$ 52,359</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2006

	Special		
	Crime Victims	E911 Wireless Service	Drug Law Enforcement
ASSETS			
Cash and cash equivalents	\$ (6,280)	\$ 272,201	\$ 34,078
Investments	-	-	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	8,558	24,217	-
Local	-	-	-
TOTAL ASSETS	\$ 2,278	\$ 296,418	\$ 34,078
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ 7,775	\$ 1,000
Accrued liabilities	947	-	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	947	7,775	1,000
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	1,331	288,643	33,078
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	1,331	288,643	33,078
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 2,278	\$ 296,418	\$ 34,078

Revenue

D.A.R.E. Program	Law Library	Secondary Road Patrol	2001 Housing Program	Criminal Justice Training Act
\$ 17,593	\$ (18,014)	\$ (8,159)	\$ 6,058	\$ 1,428
-	-	-	-	-
-	8,200	-	-	-
-	16,000	-	-	-
-	-	19,088	-	-
-	-	-	-	-
<u>\$ 17,593</u>	<u>\$ 6,186</u>	<u>\$ 10,929</u>	<u>\$ 6,058</u>	<u>\$ 1,428</u>
\$ -	\$ 723	\$ -	\$ -	\$ 194
1,239	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,239	723	-0-	-0-	194
-	-	-	-	-
16,354	5,463	10,929	6,058	1,234
-	-	-	-	-
<u>16,354</u>	<u>5,463</u>	<u>10,929</u>	<u>6,058</u>	<u>1,234</u>
<u>\$ 17,593</u>	<u>\$ 6,186</u>	<u>\$ 10,929</u>	<u>\$ 6,058</u>	<u>\$ 1,428</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2006

	Special		
	Local Officers Training	Child Care Probate	Veteran's Trust
ASSETS			
Cash and cash equivalents	\$ 8,060	\$ (207,965)	\$ 540
Investments	-	10,000	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	4,752	-
Local	-	-	-
TOTAL ASSETS	\$ 8,060	\$ (193,213)	\$ 540
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ 23,345	\$ -
Accrued liabilities	-	2,474	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	25,819	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	8,060	(219,032)	540
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	8,060	(219,032)	540
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 8,060	\$ (193,213)	\$ 540

Revenue			Debt Service	Capital Projects
Circuit Court Marriage Council	Inmate Social Security	D.H.S. Building	Building Authority	Ambulance Equipment Replacement
\$ 23,005	\$ 4,024	\$ 146,840	\$ 233	\$ 405,057
-	-	-	493,061	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 23,005</u>	<u>\$ 4,024</u>	<u>\$ 146,840</u>	<u>\$ 493,294</u>	<u>\$ 405,057</u>
\$ -	\$ -	\$ 60	\$ -	\$ -
-	-	246	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-0-	-0-	306	-0-	-0-
-	-	-	493,294	-
23,005	4,024	146,534	-	-
-	-	-	-	405,057
<u>23,005</u>	<u>4,024</u>	<u>146,534</u>	<u>493,294</u>	<u>405,057</u>
<u>\$ 23,005</u>	<u>\$ 4,024</u>	<u>\$ 146,840</u>	<u>\$ 493,294</u>	<u>\$ 405,057</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2006

	Capital		
	Other County Property	Courthouse Jail Renovation	Capital Improvements
ASSETS			
Cash and cash equivalents	\$ 196,229	\$ 2	\$ 73,525
Investments	-	13,716	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	4,415	-	-
Local	-	-	-
TOTAL ASSETS	<u>\$ 200,644</u>	<u>\$ 13,718</u>	<u>\$ 73,525</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	2,500	-	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	35,962	-	-
Deferred revenue	4,415	-	-
TOTAL LIABILITIES	42,877	-0-	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	-	-	-
Capital projects funds	157,767	13,718	73,525
TOTAL FUND BALANCES (DEFICITS)	<u>157,767</u>	<u>13,718</u>	<u>73,525</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 200,644</u>	<u>\$ 13,718</u>	<u>\$ 73,525</u>

<u>Projects</u>		<u>Total Nonmajor Governmental Funds</u>
TRV Capital Project		
\$ (30,757)	\$	744,896
-		516,777
-		37,369
-		16,000
40,757		242,418
-		11,872
<u>\$ 10,000</u>	<u>\$</u>	<u>1,569,332</u>

\$ -	\$	57,066
-		31,069
10,000		118,001
-		35,962
-		4,415
10,000		246,513
-		493,294
-		179,458
-		650,067
<u>-0-</u>		<u>1,322,819</u>
<u>\$ 10,000</u>	<u>\$</u>	<u>1,569,332</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2006

	Special		
	Pleasant Plains Township Officer	Yates Township Officer	Emergency 911
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ 46,335
Charges for services	-	50,393	221,260
Interest and rents	-	-	-
Other	-	-	4,081
	<u>-0-</u>	<u>50,393</u>	<u>271,676</u>
TOTAL REVENUES	-0-	50,393	271,676
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	50,390	509,343
Health and welfare	-	-	-
Capital outlay	-	-	10,796
Debt service	-	-	-
	<u>-0-</u>	<u>50,390</u>	<u>520,139</u>
TOTAL EXPENDITURES	-0-	50,390	520,139
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	3	(248,463)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	-	-	272,583
Transfers out	-	-	-
	<u>-0-</u>	<u>-0-</u>	<u>272,583</u>
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	272,583
NET CHANGE IN FUND BALANCE	-0-	3	24,120
Fund balances (deficits), beginning of year	<u>-</u>	<u>1</u>	<u>(219,544)</u>
Fund balances (deficits), end of year	<u><u>\$ -0-</u></u>	<u><u>\$ 4</u></u>	<u><u>\$ (195,424)</u></u>

Revenue				
Education Grants	Friend of the Court	Special Services EZ/EC Pass Through Grant	Building Inspection	Register of Deeds Automation
\$ -	\$ 132,202	\$ 26,130	\$ -	\$ -
-	10,528	-	229,062	36,310
-	-	-	-	-
-	-	-	-	-
-0-	142,730	26,130	229,062	36,310
-	172,831	-	-	27,350
-	-	-	284,915	-
-	-	26,130	-	-
-	-	-	335	-
-	-	-	-	-
-0-	172,831	26,130	285,250	27,350
-0-	(30,101)	-0-	(56,188)	8,960
-	-	-	-	-
-	1,000	-	-	-
-	-	-	-	-
-0-	1,000	-0-	-0-	-0-
-0-	(29,101)	-0-	(56,188)	8,960
14,915	31,010	-	45,020	34,041
<u>\$ 14,915</u>	<u>\$ 1,909</u>	<u>\$ -0-</u>	<u>\$ (11,168)</u>	<u>\$ 43,001</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2006

	Special		
	Crime Victims	E911 Wireless Service	Drug Law Enforcement
REVENUES			
Intergovernmental			
Federal/State	\$ 24,707	\$ -	\$ -
Charges for services	-	95,840	-
Interest and rents	-	-	-
Other	-	-	22,673
TOTAL REVENUES	24,707	95,840	22,673
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	60,696	5,229
Health and welfare	32,739	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	32,739	60,696	5,229
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,032)	35,144	17,444
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	-	-	-
Transfers out	-	(50,305)	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(50,305)	-0-
NET CHANGE IN FUND BALANCE	(8,032)	(15,161)	17,444
Fund balances (deficits), beginning of year	9,363	303,804	15,634
Fund balances (deficits), end of year	<u>\$ 1,331</u>	<u>\$ 288,643</u>	<u>\$ 33,078</u>

Revenue

D.A.R.E. Program	Law Library	Secondary Road Patrol	2001 Housing Program	Criminal Justice Training Act
\$ -	\$ -	\$ 57,184	\$ -	\$ 4,041
-	8,700	-	500	-
-	-	-	-	-
9,254	-	-	-	-
9,254	8,700	57,184	500	4,041
-	8,617	-	-	-
50,291	-	76,413	-	4,797
-	-	-	-	-
-	-	-	-	-
50,291	8,617	76,413	-0-	4,797
(41,037)	83	(19,229)	500	(756)
-	-	-	-	-
45,223	-	19,894	-	-
-	-	-	-	-
45,223	-0-	19,894	-0-	-0-
4,186	83	665	500	(756)
12,168	5,380	10,264	5,558	1,990
<u>\$ 16,354</u>	<u>\$ 5,463</u>	<u>\$ 10,929</u>	<u>\$ 6,058</u>	<u>\$ 1,234</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2006

	Special		
	Local Officers Training	Child Care Probate	Veteran's Trust
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ 262,173	\$ 319
Charges for services	3,878	21,198	-
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	3,878	283,371	319
EXPENDITURES			
Current			
General government	-	-	-
Public safety	882	-	-
Health and welfare	-	517,589	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	882	517,589	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,996	(234,218)	319
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	-	221,000	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	221,000	-0-
NET CHANGE IN FUND BALANCE	2,996	(13,218)	319
Fund balances (deficits), beginning of year	5,064	(205,814)	221
Fund balances (deficits), end of year	<u>\$ 8,060</u>	<u>\$ (219,032)</u>	<u>\$ 540</u>

Revenue			Debt Service	Capital Projects
Circuit Court Marriage Council	Inmate Social Security	D.H.S. Building	Building Authority	Ambulance Equipment Replacement
\$ -	\$ -	\$ -	\$ -	\$ -
1,050	-	-	-	-
-	142	227,926	15,927	-
-	-	-	-	-
1,050	142	227,926	15,927	-0-
-	-	-	5,204	-
-	-	-	-	-
-	-	33,094	-	-
-	-	-	-	-
-	-	-	603,411	-
-0-	-0-	33,094	608,615	-0-
1,050	142	194,832	(592,688)	-0-
-	-	-	-	-
-	-	-	607,411	50,000
-	-	(200,150)	-	-
-0-	-0-	(200,150)	607,411	50,000
1,050	142	(5,318)	14,723	50,000
21,955	3,882	151,852	478,571	355,057
\$ 23,005	\$ 4,024	\$ 146,534	\$ 493,294	\$ 405,057

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2006

	Capital		
	Other County Property	Courthouse Jail Renovation	Capital Improvements
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ -
Charges for services	-	-	-
Interest and rents	26,487	544	66
Other	-	-	-
TOTAL REVENUES	26,487	544	66
EXPENDITURES			
Current			
General government	122,924	-	1,050
Public safety	-	-	-
Health and welfare	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	122,924	-0-	1,050
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(96,437)	544	(984)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	-	-	39,569
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	39,569
NET CHANGE IN FUND BALANCE	(96,437)	544	38,585
Fund balances (deficits), beginning of year	254,204	13,174	34,940
Fund balances (deficits), end of year	<u>\$ 157,767</u>	<u>\$ 13,718</u>	<u>\$ 73,525</u>

<u>Projects</u>	
<u>TRV Capital Project</u>	<u>Total</u>
\$ -	\$ 553,091
-	678,719
1,017	272,109
-	36,008
<u>1,017</u>	<u>1,539,927</u>
-	337,976
13,142	1,056,098
-	609,552
713,891	725,022
-	603,411
<u>727,033</u>	<u>3,332,059</u>
(726,016)	(1,792,132)
726,016	726,016
-	1,256,680
-	(250,455)
<u>726,016</u>	<u>1,732,241</u>
-0-	(59,891)
-	1,382,710
<u>\$ -0-</u>	<u>\$ 1,322,819</u>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

Year Ended December 31, 2006

	Treasurer's Administrative	Commissary	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 27,521	\$ 7,357	\$ 34,878
Accounts receivable	-	24,000	24,000
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	27,521	31,357	58,878
LIABILITIES			
Current liabilities			
Accounts payable	-	5,947	5,947
	<hr/>	<hr/>	<hr/>
NET ASSETS			
Unrestricted	\$ 27,521	\$ 25,410	\$ 52,931
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET ASSETS

Year Ended December 31, 2006

	Treasurer's Administrative	Commissary	Total
OPERATING REVENUES			
Charges for services	\$ -	\$ 121,981	\$ 121,981
Other	27,429	-	27,429
	<u>27,429</u>	<u>-</u>	<u>27,429</u>
TOTAL OPERATING REVENUES	27,429	121,981	149,410
OPERATING EXPENSES			
Other	2,028	88,772	90,800
	<u>2,028</u>	<u>88,772</u>	<u>90,800</u>
OPERATING INCOME	25,401	33,209	58,610
NONOPERATING REVENUES			
Interest revenue	557	-	557
	<u>557</u>	<u>-</u>	<u>557</u>
INCOME BEFORE TRANSFERS	25,958	33,209	59,167
TRANSFERS OUT	-	(9,209)	(9,209)
	<u>-</u>	<u>(9,209)</u>	<u>(9,209)</u>
CHANGE IN NET ASSETS	25,958	24,000	49,958
Net assets, beginning of year	1,563	1,410	2,973
	<u>1,563</u>	<u>1,410</u>	<u>2,973</u>
Net assets, end of year	<u>\$ 27,521</u>	<u>\$ 25,410</u>	<u>\$ 52,931</u>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2006

	Treasurer's Administrative	Commissary	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 27,429	\$ 97,981	\$ 125,410
Cash paid to suppliers	(2,028)	(86,315)	(88,343)
	<u>25,401</u>	<u>11,666</u>	<u>37,067</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	25,401	11,666	37,067
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	-	(9,209)	(9,209)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	557	-	557
	<u>557</u>	<u>-</u>	<u>557</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,958	2,457	28,415
Cash and cash equivalents, beginning of year	1,563	4,900	6,463
	<u>1,563</u>	<u>4,900</u>	<u>6,463</u>
Cash and cash equivalents, end of year	\$ 27,521	\$ 7,357	\$ 34,878
	<u>\$ 27,521</u>	<u>\$ 7,357</u>	<u>\$ 34,878</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 25,401	\$ 33,209	\$ 58,610
Adjustments to reconcile operating income to net cash provided by operating activities			
(Increase) in accounts receivable	-	(24,000)	(24,000)
Increase in accounts payable	-	2,457	2,457
	<u>-</u>	<u>2,457</u>	<u>2,457</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 25,401	\$ 11,666	\$ 37,067
	<u>\$ 25,401</u>	<u>\$ 11,666</u>	<u>\$ 37,067</u>

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2006

	Central Stores	Employee Benefit Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ (1,300)	\$ 152,626	\$ 151,326
Inventories	9,831	-	9,831
Due from other funds	341	-	341
	<u>8,872</u>	<u>152,626</u>	<u>161,498</u>
TOTAL ASSETS	8,872	152,626	161,498
LIABILITIES			
Current liabilities			
Accounts payable	29	-	29
Due to other funds	-	6	6
	<u>29</u>	<u>6</u>	<u>35</u>
TOTAL LIABILITIES	29	6	35
NET ASSETS			
Restricted for employee benefits	-	152,620	152,620
Unrestricted	8,843	-	8,843
	<u>8,843</u>	<u>-</u>	<u>8,843</u>
TOTAL NET ASSETS	\$ 8,843	\$ 152,620	\$ 161,463

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2006

	Central Stores	Employee Benefit Fund	Total
OPERATING REVENUES			
Charges for services	\$ 19,853	\$ 1,843,304	\$ 1,863,157
OPERATING EXPENSES			
Personal services and fringes	-	1,877,245	1,877,245
Supplies	13,579	-	13,579
TOTAL OPERATING EXPENSES	13,579	1,877,245	1,890,824
CHANGE IN NET ASSETS	6,274	(33,941)	(27,667)
Net assets, beginning of year	2,569	186,561	189,130
Net assets, end of year	\$ 8,843	\$ 152,620	\$ 161,463

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2006

	Central Stores	Employee Benefit Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from users	\$ 19,853	\$ 1,843,304	\$ 1,863,157
Cash paid to suppliers	(13,810)	-	(13,810)
Cash paid for employee benefits	-	(1,877,245)	(1,877,245)
	<u>6,043</u>	<u>(33,941)</u>	<u>(27,898)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Cash and cash equivalents, beginning of year	(7,343)	186,567	179,224
Cash and cash equivalents, end of year	<u>\$ (1,300)</u>	<u>\$ 152,626</u>	<u>\$ 151,326</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 6,274	\$ (33,941)	\$ (27,667)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
(Decrease) in accounts payable	(231)	-	(231)
	<u>6,043</u>	<u>(33,941)</u>	<u>(27,898)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			

Lake County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2006

	Agency Funds			Total
	Trust and Agency	Library Penal	Transportation Millage Fund	
ASSETS				
Cash and cash equivalents	\$ 308,127	\$ 20,279	\$ 9,971	\$ 338,377
Due from governmental units - State	97,430	-	-	97,430
TOTAL ASSETS	405,557	20,279	9,971	435,807
LIABILITIES				
Undistributed collections payable	\$ 45,136	\$ 20,279	\$ 9,971	\$ 75,386
Deposits payable	17,946	-	-	17,946
Due to other governmental units				
Federal/State	240,679	-	-	240,679
Local	60,851	-	-	60,851
Due to others	40,945	-	-	40,945
TOTAL LIABILITIES	\$ 405,557	\$ 20,279	\$ 9,971	\$ 435,807

Lake County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

December 31, 2006

	<u>Capital Projects</u>		
	<u>Big Star Lake Level Revolving</u>	<u>Wolf Lake Level Revolving</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 4,969</u>	<u>\$ 2,871</u>	<u>\$ 7,840</u>
FUND BALANCES			
Unreserved			
Undesignated - reported in capital projects	<u>\$ 4,969</u>	<u>\$ 2,871</u>	<u>\$ 7,840</u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2006.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DRAINAGE DISTRICTS

For the Year Ended December 31, 2006

	Capital Projects		Total
	Big Star Lake Level Revolving	Wolf Lake Level Revolving	
REVENUES			
Interest	\$ 135	\$ 104	\$ 239
EXPENDITURES			
Current			
Public works	149	98	247
NET CHANGE IN FUND BALANCES	(14)	6	(8)
Fund balances, beginning of year	4,983	2,865	7,848
Fund balances, end of year	<u>\$ 4,969</u>	<u>\$ 2,871</u>	<u>\$ 7,840</u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2006.

Lake County, Michigan
Component Unit Funds
BALANCE SHEET - COUNCIL ON AGING
December 31, 2006

	Special Revenue
ASSETS	
Cash and cash equivalents	\$ 190,353
Taxes receivable	274,536
Due from other governments	15,265
TOTAL ASSETS	\$ 480,154
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 24,518
Deferred revenue	289,801
TOTAL LIABILITIES	314,319
FUND BALANCE	
Fund balance	
Unreserved undesignated	165,835
TOTAL LIABILITIES AND FUND BALANCE	\$ 480,154

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2006.

Lake County, Michigan

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - COUNCIL ON AGING

For the Year Ended December 31, 2006

	<u>Special Revenue</u>
REVENUES	
Taxes	\$ 272,904
EXPENDITURES	
Health and welfare	<u>218,510</u>
CHANGE IN FUND BALANCE	54,394
Fund balances, beginning of year	<u>111,441</u>
Fund balances, end of year	<u><u>\$ 165,835</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2006.

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Lake County
Baldwin, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lake County, Michigan as of and for the year ended December 31, 2006, and have issued our report thereon dated June 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

2006-1 PREPARATION OF FINANCIAL STATEMENTS

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls.

Criteria: All Michigan governments are required to prepare financial statements in accordance with GAAP. This is a responsibility of the government's management. The preparation of financial statement in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the County's annual financial statements and notes to the financial statements in accordance with GAAP. The County relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Corrective Action Response: Management of the County is currently reviewing procedures related to obtaining sufficient knowledge in order for the County to better understand their audited financial statements and work towards gaining the expertise to prepare their statements in accordance with GAAP.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiencies described below to be material weaknesses in internal control over financial reporting.

2006-2 AUDIT ADJUSTMENTS

Condition: During the course of our audit we proposed several journal entries to the County's management for entry into the general ledger. In many instances, if unrecorded, the suggested amounts would have resulted in material misstatements to the County's financial statements.

Criteria: Responsibility for the fair presentation of the County's financial statements, including the amounts and disclosure within the audited financial statements, rests with the County's management. The County is required to establish sufficient internal controls to assure that the financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles.

Cause: The County has historically relied on the independent auditors to assist in adjusting the County's general ledger at the end of the year.

Effect: The government's ability to prepare financial statements in accordance with generally accepted accounting principles has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal control.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-3 FUND DEFICITS

Condition: During the course of our audit, it was noted that the County had four (4) funds that ended the year in a deficit financial position, compared to three (3) funds in the prior year. It was further noted that one of these funds that reported a deficit financial position in the prior year suffered a further decrease in fund balance during the current year.

Criteria: Michigan Public Act 275 of 1980 provides that the County shall not have deficits in one or more of the County's unreserved fund balances/unrestricted net assets.

Cause: Budgetary controls to limit expenditures and/or transfers of funds were not made to alleviate deficits in these funds.

Effect: The County will be required to submit a deficit reduction plan to the State of Michigan for any funds for which a plan has not previously been filed.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-4 BANK RECONCILIATIONS

Condition: During our analysis of the County's bank accounts, we noted that bank reconciliations of several accounts either had not been performed in a timely manner and/or did not agree with the computerized general ledger. The reconciliations for these accounts were completed by County staff during our audit fieldwork.

Criteria: All bank accounts should be reconciled to the computerized general ledger on a monthly basis.

Cause: Unknown

Effect: The bank reconciliations either had not been prepared or ones that were prepared for several accounts did not agree to the County's general ledger at the beginning of our audit fieldwork.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-5 RECONCILIATION OF DELINQUENT TAXES RECEIVABLE

Condition: During our analysis of the County's delinquent tax receivable accounts, we noted that while the County's subsidiary ledger balances agreed with the computerized subsidiary tax software, these reports did not agree with the balances recorded in the County's computerized general ledger. The reconciliation of these accounts to the general ledger was completed by County staff during our audit fieldwork.

Criteria: Delinquent taxes receivable should be reconciled on a regular basis, preferably monthly. This reconciliation should include assuring that all three records (general ledger, subsidiary ledger, and computerized subsidiary tax software) are in agreement.

Cause: Through discussions with management it was noted that spreadsheets used to spread delinquent tax payments contained formula errors that, among other items, caused errors in postings in the general ledger.

Effect: The delinquent tax receivable balances did not agree at the beginning of our audit fieldwork to the County's computerized general ledger for several of the tax years that were analyzed.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

2006-6 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and several Special Revenue Funds. It was also noted that the County budgeted for a deficit fund balance in one of the Special Revenue Funds.

Criteria: The Uniform Budgeting and Accounting Act requires that the County adopt a budget for the General Fund and all Special Revenue Funds and prohibits budgeting for a deficit fund balance. It also requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The County's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Special Revenue Funds.

Effect: The County adopted the budget for the General Fund at the activity level and at the total fund level for the Special Revenue Funds. Having unfavorable budget variances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Corrective Action Response: Management of the County is currently reviewing procedures related to budgetary compliance in accordance with State law.

2006-7 DISTRIBUTION OF TAX COLLECTIONS

Condition: During our analysis of the County's compliance with the statutory requirements to distribute taxes to the State of Michigan in a timely fashion, it was noted that it was normal County procedure to not distribute the State Education Tax (SET) in a timely fashion.

Criteria: Section 43(10) of MCL 211.43 requires that "County Treasurer's account for and deliver to the State, by the fifteenth day of each month, the State Education Tax on hand the last day of the preceding month. By the first day of each month, the County Treasurer's must remit the collections on hand on or before the fifteenth day of the immediately preceding month."

Cause: The County did not remit the SET in a timely fashion in accordance with the law.

Effect: The County is not in compliance with MCL 211.43.

Corrective Action Response: Management of the County is currently reviewing procedures to be put in place to assure future compliance with State law.

The County's response to the finding identified in our audit is described above. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners of Lake County, others within the County, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 20, 2007

Lake County, Michigan

**SUPPLEMENTARY INFORMATION TO
BASIC FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

December 31, 2006

Lake County, Michigan

TABLE OF CONTENTS

December 31, 2006

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-4
Notes to Schedule of Expenditures of Federal Awards	5-6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	7-8
SCHEDULE OF FINDINGS	9-12
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	13

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
of Lake County
Baldwin, Michigan

Compliance

We have audited the compliance of Lake County, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Lake County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lake County's management. Our responsibility is to express an opinion on Lake County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lake County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lake County's compliance with those requirements.

In our opinion, Lake County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ending December 31, 2006.

Internal Control Over Compliance

The management of Lake County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lake County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lake County's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lake County as of and for the year ended December 31, 2006, and have issued our report thereon dated June 20, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Lake County, Michigan and Federal awarding agencies, others within the County, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 20, 2007

Lake County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF JUSTICE			
The Drug Control and System Improvement Grant Program Passed through Michigan Family Independence Agency Juvenile Justice ^(e)			
	16.523		
06/07 Regular		JABGN-06-43001	\$ 21,258
05/06 Regular		JABGN-05-43001	<u>4,166</u>
			25,424
 BASIC Grant 2006	 16.540	 N/A	 14,863
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Michigan Family Independence Agency Child Support Enforcement (Title IV-D) ^(a)			
	93.563		
Cooperative Reimbursement - Friend of the Court			
05/06		CS/FOC-06-43001	89,064
06/07		CS/FOC-07-43001	25,732
Cooperative Reimbursement - Prosecuting Attorney			
05/06		CS/PA-06-43002	39,624
06/07		CS/PA-07-43002	14,576
 (Title IV-D) ^(a) Incentive Payments ^(b)			
2006 Regular		N/A	10,229
Medical Support Collection			
Friend of the Court FY 06/07		CS/MED-07-43001	1,379
Friend of the Court FY 05/06		CS/MED-06-43001	<u>3,947</u>
			184,551
Foster Care - Title IV-E 2006	93.658	PROFC-05-43001	4,785
Social Services EZ/EC ^(d) 94-09	93.667	EZEC-95-43001	18,176
U.S. DEPARTMENT OF AGRICULTURE			
Forestry Services - Rivers and Campgrounds Project (Direct Programs) 2006			
	10.664	N/A	4,500
Rural Development - Community Facilities Loans and Grants ^(c) (Direct Programs)	10.766	N/A	726,016

Lake County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE - CONTINUED			
Passed through Michigan Department of Natural Resources			
Schools and Roads - Grants to States 2006	10.665	N/A	\$ 110,269
Passed through Prosecuting Attorney's Association of Michigan			
Food Stamp Fraud Program	10.561	N/A	360
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Michigan Department of Natural Resources			
Boating Safety Financial Assistance 2006	97.012	N/A	16,273
Passed through Michigan State Police State Homeland Security ^(f)	97.004		
2004 CBRNE - Equipment		N/A	11,392
2004 CBRNE - Interoperable Communications		N/A	<u>21,058</u>
			32,450
Homeland Security Grant Program ^(f)	97.067		
2005 CBRNE - Equipment		N/A	10,092
2005 CBRNE - Planning			<u>1,300</u>
			11,392
Emergency Management Performance Grant 2006 EMPG	97.042	N/A	<u>2,493</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,151,552</u>

Lake County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Lake County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note C.

Federal Awards, if any, of the Lake County Road Commission are excluded from the accompanying Schedule of Expenditures of Federal Awards. That component unit is audited separately with reports issued under separate cover. A Single Audit, if applicable for the Road Commission, would be conducted separately and included in their applicable reports. To view a copy of their report, contact the administrative offices of the Road Commission or the Lake County Clerks office.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (f) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursement of these contracts is passed through the State Family Independence Agency. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of total contract expenditures.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes program tested as a "major program".
- (d) This program is reported as of the subrecipient's fiscal year-end of September 30, 2006.
- (e) The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the 90% of total contract expenditures.
- (f) Programs considered a cluster by the U.S. Department of Homeland Security.

NOTE C: RECONCILIATION TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE EXPENDITURES

The following reconciles the Federal revenues reported in the December 31, 2006, basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
GENERAL FUND				
DHS Grants - PA	\$ 60,731	\$(1,746)	\$ -	\$ 58,985
Federal Forest	4,500	-	-	4,500
Federal Food Stamp Program	360	-	-	360
Marine Safety	24,942	(8,669)	-	16,273
Other Programs	<u>429,271</u>	<u>(429,271)</u>	<u>-</u>	<u>-0-</u>
TOTAL GENERAL FUND	519,804	(439,686)	-0-	80,118

Lake County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2006

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
SPECIAL REVENUE FUNDS				
Emergency 911	\$ 46,335	\$ -	\$ -	\$ 46,335
Friend of the Court	132,202	(1,851)	-	130,351
Child Care Probate	262,173	(221,886)	-	40,287
Social Services EZ/EC				
Pass through Grant	26,130	-	(7,954) ⁽³⁾	18,176
Other programs	<u>2,516,402</u>	<u>(2,516,402)</u>	<u>-</u>	<u>-0-</u>
TOTAL SPECIAL REVENUE FUNDS	2,983,242	(2,740,139)	(7,954)	235,149
CAPITAL PROJECTS FUNDS				
TRV Capital Projects	-	-	726,016 ⁽²⁾	726,016
TRUST AND AGENCY FUNDS				
Trust and Agency	<u>-</u>	<u>-</u>	<u>110,269</u> ⁽¹⁾	<u>110,269</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 3,503,046</u>	<u>\$(3,179,825)</u>	<u>\$ 828,331</u>	<u>\$ 1,151,552</u>

Following is a summary of the adjustments in the above schedule:

- (1) The adjustment related to amounts reported as an increase when received and a decrease when disbursed within the trust and agency fund's activity because the County acts in a trustee capacity of these funds and distributes them to the local units of government and therefore does not recognize the funds as revenues or expenditures, but recognizes the amounts as expenditures in the Schedule of Expenditures of Federal Awards as of December 31, 2006 in accordance with OMB Circular A-133.
- (2) The adjustment related to the TRV Capital Projects Fund represents USDA loan proceeds which are reported in the financial statements as other financing sources in accordance with generally accepted accounting principles (GAAP). These funds were recognized in the Schedule of Expenditures of Federal Awards as of December 31, 2006 as required by the U.S. Department of Agriculture.
- (3) The adjustment related to the Social Services EZ/EC Pass through Grant Fund represents a timing difference between the amount recognized as revenue in the County's financial statements which is reported for the year ended December 31, 2006 and the subrecipient's amount which is reported in their audited financial statements for the fiscal year ended September 30, 2006. The amount of this timing difference will be recognized in the schedule in future years.

NOTE D: SUBRECIPIENTS

Of the Federal expenditures presented in the Schedule of Expenditures of Federal Awards as of December 31, 2006, the County provided Federal awards to subrecipients in the amount of \$18,176 from the U.S. Health and Human Services Social Services EZ/EC grant (CFDA 93.667) and \$110,269 from the U.S. Department of Agriculture Schools and Roads - Grants to States (CFDA 10.665).

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
of Lake County
Baldwin, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County, Michigan as of and for the year ended December 31, 2006, which collectively comprise Lake County's basic financial statements and have issued our report thereon dated June 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lake County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described below as Findings 2006-1, 2006-2, 2006-3, 2006-4, and 2006-5 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that Findings 2006-2, 2006-3, 2006-4, and 2006-5 of the significant deficiencies described in the schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2006-6 and 2006-7.

Lake County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Lake County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners of Lake County, others within the County, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 20, 2007

Lake County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Reportable condition(s) identified that are not considered to be material weakness(es)? X Yes No

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

2006-1 Preparation of Financial Statements

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls.

Criteria: All Michigan governments are required to prepare financial statements in accordance with GAAP. This is a responsibility of the government's management. The preparation of financial statement in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2006

Section II - Financial Statement Findings - continued

2006-1 Preparation of Financial Statements - continued

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the County's annual financial statements and notes to the financial statements in accordance with GAAP. The County relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Corrective Action Response: Management of the County is currently reviewing procedures related to obtaining sufficient knowledge in order for the County to better understand their audited financial statements and work towards gaining the expertise to prepare their statements in accordance with GAAP.

2006-2 Audit Adjustments

Condition: During the course of our audit we proposed several journal entries to the County's management for entry into the general ledger. In many instances, if unrecorded, the suggested amounts would have resulted in material misstatements to the County's financial statements.

Criteria: Responsibility for the fair presentation of the County's financial statements, including the amounts and disclosure within the audited financial statements, rests with the County's management. The County is required to establish sufficient internal controls to assure that the financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles.

Cause: The County has historically relied on the independent auditors to assist in adjusting the County's general ledger at the end of the year.

Effect: The government's ability to prepare financial statements in accordance with generally accepted accounting principles has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal control.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-3 Fund Deficits

Condition: During the course of our audit, it was noted that the County had four (4) funds that ended the year in a deficit financial position, compared to three (3) funds in the prior year. It was further noted that one (1) of these funds that reported a deficit financial position in the prior year suffered a further decrease in fund balance during the current year.

Criteria: Michigan Public Act 275 of 1980 provides that the County shall not have deficits in one or more of the County's unreserved fund balances/unrestricted net assets.

Cause: Budgetary controls to limit expenditures and/or transfers of funds were not made to alleviate deficits in these funds.

Effect: The County will be required to submit a deficit reduction plan to the State of Michigan for any funds for which a plan has not previously been filed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2006

Section II - Financial Statement Findings - continued

2006-3 Fund Deficits - continued

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-4 Bank Reconciliations

Condition: During our analysis of the County's bank accounts, we noted that bank reconciliations of several accounts either had not been performed in a timely manner and/or did not agree with the computerized general ledger. The reconciliations for these accounts were completed by County staff during our audit fieldwork.

Criteria: All bank accounts should be reconciled to the computerized general ledger on a monthly basis.

Cause: Unknown

Effect: The bank reconciliations either had not been prepared or ones that were prepared for several accounts did not agree to the County's general ledger at the beginning of our audit fieldwork.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-5 Reconciliation of Delinquent Taxes Receivable

Condition: During our analysis of the County's delinquent tax receivable accounts, we noted that while the County's subsidiary ledger balances agreed with the computerized subsidiary tax software, these reports did not agree with the balances recorded in the County's computerized general ledger. The reconciliation of these accounts to the general ledger was completed by County staff during our audit fieldwork.

Criteria: Delinquent taxes receivable should be reconciled on a regular basis, preferably monthly. This reconciliation should include assuring that all three records (general ledger, subsidiary ledger, and computerized subsidiary tax software) are in agreement.

Cause: Through discussions with management it was noted that spreadsheets used to spread delinquent tax payments contained formula errors that, among other items, caused errors in postings in the general ledger.

Effect: The delinquent tax receivable balances did not agree at the beginning of our audit fieldwork to the County's computerized general ledger for several of the tax years that were analyzed.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-6 Unfavorable Budget Variances

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and several Special Revenue Funds. It was also noted that the County budgeted for a deficit fund balance in one of the Special Revenue Funds.

Criteria: The Uniform Budgeting and Accounting Act requires that the County adopt a budget for the General Fund and all Special Revenue Funds and prohibits budgeting for a deficit fund balance. It also requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2006

Section II - Financial Statement Findings - continued

2006-6 Unfavorable Budget Variances - continued

Cause: The County's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Special Revenue Funds.

Effect: The County adopted the budget for the General Fund at the activity level and at the total fund level for the Special Revenue Funds. Having unfavorable budget variances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Corrective Action Response: Management of the County is currently reviewing procedures related to budgetary compliance in accordance with State law.

2006-7 Distribution of Tax Collections

Condition: During our analysis of the County's compliance with the statutory requirements to distribute taxes to the State of Michigan in a timely fashion, it was noted that it was normal County procedure to not distribute the State Education Tax (SET) in a timely fashion.

Criteria: Section 43(10) of MCL 211.43 requires that "County Treasurer's account for and deliver to the State, by the fifteenth day of each month, the State Education Tax on hand the last day of the preceding month. By the first day of each month, the County Treasurer's must remit the collections on hand on or before the fifteenth day of the immediately preceding month."

Cause: The County did not remit the SET in a timely fashion in accordance with the law.

Effect: The County is not in compliance with MCL 211.43.

Corrective Action Response: Management of the County is currently reviewing procedures to be put in place to assure future compliance with State law.

Section III - Federal Award Findings and Questioned Costs

None

Lake County, Michigan

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Combined Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Combined Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

As noted in the prior year financial statements, the prior finding was as follows:

Social Services EZ/EC Grant Passed through the Michigan Family Independence Agency - CFDA 93.667; Grant No. ECEZ-95-43001; Grant period - continues through December 2009.

During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the County had put in place formal procedures to monitor the subrecipient but the subrecipient did not comply with the County's requests to provide documentation through September 30, 2005 (the subrecipients fiscal year-end as reported in this audit) in order for the County to perform their required subrecipient monitoring and without that detail the County did not reflect the grant activity within the County's general ledger. This activity was recorded as an audit entry from the subrecipient's most recent audit. The subrecipient has assured the County that effective October 1, 2005 they will comply with providing sufficient documentation to the County for the County to record the activity in their general ledger and for the County to do the necessary subrecipient monitoring. This finding did not appear to result in any questioned costs.

We recommend the County assure that the subrecipient comply with the County's established subrecipient monitoring procedures and require the subrecipient to submit the necessary data so the County can review the documentation prior to submission to the funding source for reimbursement. This documentation will also provide the necessary documentation the County needs to record the activity in an appropriate Special Revenue Fund.

Based on the documentation the subrecipient provided during the current fiscal year of the subrecipient and the oversight the County was able to do of their subrecipient during 2006 we consider this finding resolved in the current year.